

2006-2081Z

PEPSICO

2006

PERFORMANCE WITH PURPOSE



PEPSICO
INTERNATIONAL

We believe Performance — achieving financial results — matters most when it is combined with Purpose — improving people's lives.

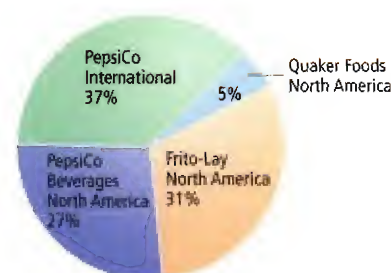
Financial Highlights

PepsiCo, Inc. and Subsidiaries

(\$ in millions except per share amounts; all per share amounts assume dilution)

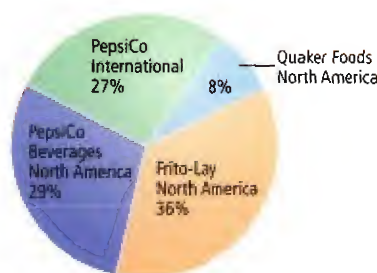
Net Revenue

Total: \$35,137



Division Operating Profit

Total: \$7,172



	2006	2005	% Chg ^(a)
Summary of Operations			
Total net revenue	\$35,137	\$32,562	8
Division operating profit ^(b)	\$7,172	\$6,710	7
Total operating profit	\$6,439	\$5,922	9
Net income ^(c)	\$5,065	\$4,536	12
Earnings per share ^(c)	\$3.00	\$2.66	13
Other Data			
Management operating cash flow ^(d)	\$4,065	\$4,204	(3)
Net cash provided by			
operating activities	\$6,084	\$5,852	4
Capital spending	\$2,068	\$1,736	19
Common share repurchases	\$3,000	\$3,012	—
Dividends paid	\$1,854	\$1,642	13
Long-term debt	\$2,550	\$2,313	10

(a) Percentage changes above and in text are based on unrounded amounts.

(b) Excludes corporate unallocated expenses. See page 82 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(c) In 2006, excludes restructuring and impairment charges and certain tax items. In 2005, excludes the impact of the American Jobs Creation Act (AJCA) tax charge, the 53rd week and restructuring charges. See page 82 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(d) Includes the impact of net capital spending. Also, see "Our Liquidity and Capital Resources" in Management's Discussion and Analysis.

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Primary Websites

PepsiCo, Inc. — www.pepsico.com
Frito-Lay North America — www.fritolay.com
Pepsi-Cola North America — www.pepsiworld.com
Tropicana North America — www.tropicana.com
Quaker Foods — www.quakeroats.com
Gatorade — www.gatorade.com
Smart Spot — www.smartspot.com
Walkers — www.walkers.co.uk
Sabritas — www.sabritas.com.mx
Gamesa — www.gamesa.com.mx
Frito-Lay Canada — www.fritolay.ca

When market or market share are referred to in this report, the markets and share are defined by the sources of the information, primarily Information Resources, Inc. and ACNielsen. The Measured Channel Information excludes Wal*Mart, as Wal*Mart does not report volume to these services.



700 Anderson Hill Road
Purchase, New York 10577-1444

March 26, 2007

Dear Fellow PepsiCo Shareholder:

You are invited to attend our Annual Meeting of Shareholders on Wednesday, May 2, 2007 at 9:00 a.m. local time at the headquarters of Frito-Lay, Inc., 7701 Legacy Drive, Plano, Texas.

At the meeting, we will ask you to elect the Board of Directors, to ratify the appointment of the independent registered public accountants, to approve the 2007 Long-Term Incentive Plan and to consider one shareholder proposal. We will also review the progress of the Company during the past year and answer your questions. The attached Proxy Statement describes the business we will conduct and provides information about the Company that you should consider when you vote your shares.

Cordially,

Indra K. Nooyi



NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

PepsiCo will hold its Annual Meeting of Shareholders at the headquarters of Frito-Lay, Inc., 7701 Legacy Drive, Plano, Texas, on Wednesday, **May 2, 2007** at **9:00 a.m.** local time, to:

- Elect the Board of Directors.
- Ratify the appointment of the independent registered public accountants.
- Approve the 2007 Long-Term Incentive Plan.
- Act upon 1 shareholder proposal described in the attached Proxy Statement.
- Transact any other business that may properly come before the Meeting.

Holders of record of the Company's Common and Convertible Preferred Stock as of the close of business on March 9, 2007 (the "Record Date") will be entitled to vote at the Meeting.

Please refer to the General Information page in this Proxy Statement for additional information about the Annual Meeting and voting.

March 26, 2007

Larry D. Thompson
Secretary

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Who can attend the Annual Meeting?

Only shareholders of record as of the close of business on March 9, 2007, their authorized representatives and guests will be able to attend the Annual Meeting. Admission will be by ticket only, and those attending the Annual Meeting must bring photo identification. Frito-Lay headquarters is accessible to disabled persons. Upon request, we will provide wireless headsets for hearing amplification.

How do I receive an admission ticket?

If you are a registered shareholder (your shares are held in your name) and plan to attend the Annual Meeting, you can obtain an admission ticket by checking the appropriate box on your proxy card or by contacting PepsiCo's Manager of Shareholder Relations at (914) 253-3055. An admission ticket will then be sent to you.

If you are a beneficial owner (your shares are held in the name of a bank, broker or other holder of record) and plan to attend the Annual Meeting, you can obtain an admission ticket in advance by writing to Investor Relations, PepsiCo, Inc., 700 Anderson Hill Road, Purchase, NY 10577 or by contacting PepsiCo's Manager of Shareholder Relations at (914) 253-3055. Please be sure to include proof of ownership, such as a bank or brokerage account statement. Shareholders who do not obtain tickets in advance may obtain them upon verification of their ownership at the registration desk on the day of the Annual Meeting.

How do I vote at the Annual Meeting?

If you wish to vote at the Annual Meeting, written ballots will be available from the ushers at the meeting. If your shares are held in the name of a bank, broker or other holder of record and you decide to attend and vote at the Annual Meeting, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting. However, if you vote by proxy and also attend the meeting, there is no need to vote again at the Annual Meeting unless you wish to change your vote.

How do I vote if I cannot attend the Annual Meeting?

All shareholders who are entitled to vote on the matters that come before the Annual Meeting have the opportunity to do so whether or not they attend the meeting in person. Voting via the Internet or by calling the toll-free number listed on the proxy card will save the Company expense. Instructions for using these convenient services appear on the proxy card. You can also vote your shares by marking your votes on the proxy card, signing and dating it and mailing it promptly using the envelope provided. Proxy votes are tabulated by an independent agent and reported at the Annual Meeting.

- **Registered Shareholders** – If you are a registered shareholder holding shares directly in the Company under your own name and are unable to attend the Annual Meeting, you can vote your shares by proxy in one of the following manners:

Via Internet at <https://www.proxypush.com/pep> and following the instructions;

By Telephone at 1-866-229-9336 in the United States, Canada or Puerto Rico on a touch-tone phone and following the recorded instructions; or

By Mail by signing and returning the proxy card.

- **Beneficial Owners** – If you are a beneficial owner holding shares through a bank, broker or other holder of record and are unable to attend the Annual Meeting, please refer to the information provided by that entity for instructions on how to vote your shares.

Can I receive proxy materials electronically?

Shareholders can help us reduce the cost of printing and mailing the Proxy Statement and the Annual Report by opting to receive future materials electronically. To enroll, please visit our website at www.pepsico.com, click on the "Investors – Shareholder Information – Electronic Delivery Enrollment" links and follow the instructions provided.

Can I revoke my proxy?

You may revoke your proxy by casting a ballot at the Annual Meeting. Any proxy not revoked will be voted as specified on your proxy card. If you return your proxy and no vote is specified (and you do not vote against a nominee or indicate that you abstain), your proxy will be voted in accordance with the Board of Directors' recommendations.

Can employees who participate in PepsiCo's 401(k) plan vote?

Employees who participate in PepsiCo's 401(k) plan (a portion of which constitutes an Employee Stock Ownership Plan) can vote the shares held in the 401(k) plan as of the close of business on March 9, 2007. To do so, the employee participant must sign and return the proxy card received or vote via internet or telephone, as instructed in the proxy materials received in connection with the shares in the 401(k) plan. If cards representing shares held in the 401(k) plan are not returned, the 401(k) trustees will not vote those shares for which signed cards are not returned, unless required by law.

What constitutes a quorum at the Annual Meeting?

Under North Carolina law and the Company's By-laws, the presence in person or by proxy of the holders of record of a majority of the votes entitled to be cast constitutes a quorum. Abstentions and broker non-votes are counted as present to determine whether a quorum exists at the meeting.

How are votes counted?

Election of Directors. Under North Carolina law and the Company's By-laws, the nominees for directors who receive a plurality of all the votes cast shall be elected to the Board of Directors. Under the Company's Corporate Governance Guidelines, if a director nominee in an uncontested election receives a greater number of votes against his election than votes for his election, the director nominee is required to offer his irrevocable resignation to the Board following certification of the shareholder vote. The Nominating and Corporate Governance Committee will consider the resignation offer and make a recommendation to the Board. Within 90 days following certification of the shareholder vote, the independent members of the Board will make a final determination as to whether to accept the director's resignation. A director who tenders his resignation under this provision shall not be present during the deliberations or voting by the Committee or the Board regarding whether to accept the resignation offer.

Ratification of Independent Registered Public Accountants and Approval of Shareholder Proposals. Under North Carolina law and the Company By-laws, ratification of the appointment of the independent registered public accountants and approval of shareholder proposals require the affirmative vote of a majority of the votes cast on such proposals.

2007 Long-Term Incentive Plan. For the 2007 Long-Term Incentive Plan, the affirmative vote of a majority of the votes cast is required for adoption of the proposal; provided, that the New York Stock Exchange rules require also that at least a majority of outstanding shares vote with respect to the 2007 Long-Term Incentive Plan.

Note on Abstentions. If you abstain from voting on a particular matter, your vote will not be treated as present and, therefore, will not be treated as cast either for or against that proposal.

Note on "Broker Non-Votes." The rules of the New York Stock Exchange determine whether a broker may cast votes related to shares held by the broker for the benefit of the actual owner where the broker does not receive specific voting instructions from the actual owner. On routine

matters, such as the Election of Directors and the Ratification of Independent Registered Public Accountants, brokers may cast a vote on such shares. On non-routine matters, such as Approval of Equity Plans and Shareholder Proposals, brokers may not vote such shares and these “broker non-votes” will not be treated as present.

Are my votes confidential?

PepsiCo's policy is that proxies identifying individual shareholders are private except as necessary to determine compliance with law or assert or defend legal claims. Proxies may also not be kept confidential in a contested proxy solicitation or in the event that a shareholder makes a written comment on a proxy card or an attachment to it. PepsiCo retains an independent organization to tabulate shareholder votes and certify voting results. The tabulating agent maintains the confidentiality of the proxies throughout the process.

PepsiCo, Inc.

700 Anderson Hill Road
Purchase, New York 10577-1444
www.pepsico.com

March 26, 2007

PROXY STATEMENT

The Board of Directors of PepsiCo, Inc. ("PepsiCo" or the "Company") is soliciting proxies to be voted at the Annual Meeting of Shareholders to be held on Wednesday, May 2, 2007, and at any adjournment of the Meeting. We are sending this Proxy Statement in connection with the proxy solicitation.

PepsiCo's authorized stock includes both Common Stock and Convertible Preferred Stock. As of March 9, 2007, the record date, there were 1,636,042,906 shares of PepsiCo Common Stock outstanding and entitled to one vote each at the Annual Meeting and 314,153 shares of PepsiCo Convertible Preferred Stock outstanding and entitled to 1,558,984 votes at the Annual Meeting, which number is equal to the number of shares of Common Stock into which such shares of Convertible Preferred Stock could be converted on the record date, rounded to the nearest share. Holders of the Common Stock and the Convertible Preferred Stock vote together on all matters as a single class. The outstanding shares of Common Stock were registered in the names of 191,583 shareholders and the outstanding shares of Convertible Preferred Stock were registered in the names of 2,510 shareholders. As far as we know, no person owns beneficially more than 5% of the outstanding Common or Convertible Preferred Stock.

PepsiCo is making its first mailing of this Proxy Statement on or about March 26, 2007.

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ELECTION OF DIRECTORS (PROXY ITEM NO. 1)

The Board of Directors proposes the following 10 nominees for election as directors at the Annual Meeting. The directors will hold office from election until the next Annual Meeting of Shareholders, or until their successors are elected and qualified. If any of these nominees for director becomes unavailable, the persons named in the proxy intend to vote for any alternate designated by the current Board of Directors. Following the retirement on May 2, 2007 of four directors, the Company intends to reduce the number of members constituting the full Board to 12 and will identify 2 new directors to fill the resulting vacancies. Proxies cannot be voted for a greater number of persons than the nominees named.



DINA DUBLON, 53, was elected a director of PepsiCo in 2005. Ms. Dublon is the former Executive Vice President and Chief Financial Officer, JP Morgan Chase & Co. serving from 1998 until her retirement in September 2004. She is also a director of Microsoft Corp. and Accenture. She is a trustee of Carnegie Mellon University, the Global Fund for Women, the Women's Commission for Refugee Women & Children and GreenStone Media LLC.



VICTOR J. DZAU, MD, 61, was elected a director of PepsiCo in 2005. Dr. Dzau is Chancellor for Health Affairs at Duke University and President and CEO of the Duke University Health System since July 2004. Prior to that, he served as Hersey Professor of Medicine at Harvard Medical School and Chairman of the Department of Medicine at Brigham and Women's Hospital in Boston Massachusetts from 1996 to 2004. He is a member of the Institute of Medicine of the National Academy of Sciences and the European Academy of Science and Arts. He was the previous Chairman of the National Institutes of Health (NIH) Cardiovascular Disease Advisory Committee, and he served on the Advisory Committee to the Director of NIH. Dr. Dzau has been named 2004 Distinguished Scientist of the American Heart Association and was the recipient of the 2004 Max Delbrück Medal, Berlin, Germany and the 2005 Ellis Island Medal of Honor. Dr. Dzau is also a director of Genzyme Corporation.



RAY L. HUNT, 63, Chief Executive Officer of Hunt Oil Company and Chairman, Chief Executive Officer and President, Hunt Consolidated, Inc., was elected to PepsiCo's Board in 1996. Mr. Hunt began his association with Hunt Oil Company in 1958 and has held his current position since 1976. He is also a director of Halliburton Company, Electronic Data Systems Corporation, King Ranch, Inc., Verde Group, LLC and Chairman of the Board of Directors of the Federal Reserve Bank of Dallas.



ALBERTO IBARGÜEN, 63, was elected a director of PepsiCo in 2005. Mr. Ibargüen is President and Chief Executive Officer of the John S. and James L. Knight Foundation. Mr. Ibargüen previously served as Chairman of Miami Herald Publishing Co., a Knight Ridder subsidiary, and as publisher of *The Miami Herald* and of *El Nuevo Herald*. He is a member of the boards of NCL Corporation Ltd. and The Council of Foreign Relations, a member of the Trustees' Council of the National Gallery of Art and is on the Advisory Council of the Public Company Accounting Oversight Board. Mr. Ibargüen is also the Chairman of the Board of Newseum.



ARTHUR C. MARTINEZ, 67, former Chairman of the Board, President and Chief Executive Officer of Sears, Roebuck and Co., was elected to PepsiCo's Board in 1999. Mr. Martinez was Chairman and Chief Executive Officer of the former Sears Merchandise Group from 1992 to 1995 and served as Chairman of the Board, President and Chief Executive Officer of Sears, Roebuck and Co. from 1995 until 2000. He served as Vice Chairman and a director of Saks Fifth Avenue from 1990 to 1992. He is also a director of Liz Claiborne, Inc., International Flavors & Fragrances Inc. and IAC/Interactive Corp. Mr. Martinez is Chairman of the Supervisory Board of ABN AMRO Holding, N.V.



INDRA K. NOOYI, 51, PepsiCo's Chairman-Elect, has been PepsiCo's President and Chief Executive Officer since October 2006. From May 2001 until October 2006, she served as President and Chief Financial Officer. She also served as Senior Vice President and Chief Financial Officer from February 2000 to May 2001. Ms. Nooyi also served as PepsiCo's Senior Vice President, Corporate Strategy and Development from 1996 until February 2000 and as PepsiCo's Senior Vice President, Strategic Planning from 1994 until 1996. Prior to joining PepsiCo, Ms. Nooyi spent four years as Senior Vice President of Strategy, Planning and Strategic Marketing for Asea Brown Boveri, Inc. She was also Vice President and Director of Corporate Strategy and Planning at Motorola, Inc.



SHARON PERCY ROCKEFELLER, 62, was elected a director of PepsiCo in 1986. She is President and Chief Executive Officer of WETA public stations in Washington, D.C., a position she has held since 1989, and was a member of the Board of Directors of WETA from 1985 to 1989. She was a member of the Board of Directors of the Corporation for Public Broadcasting until 1992. Ms. Rockefeller currently serves as trustee on the following non-profit boards: Public Broadcasting Service (PBS), National Gallery of Art, The Museum of Modern Art, Johns Hopkins Medicine, Colonial Williamsburg Foundation and Rockefeller Philanthropy Advisors.



JAMES J. SCHIRO, 61, was elected to PepsiCo's Board in January 2003. Mr. Schiro became Chief Executive Officer of Zurich Financial Services in May 2002, after serving as Chief Operating Officer – Group Finance since March 2002. He joined Price Waterhouse in 1967, where he held various management positions. In 1994 he was elected Chairman and senior partner of Price Waterhouse, and in 1998 became Chief Executive Officer of PricewaterhouseCoopers, after the merger of Price Waterhouse and Coopers & Lybrand. Mr. Schiro is also a director of Royal Philips Electronics.



DANIEL VASELLA, 53, was elected to PepsiCo's Board in February 2002. Dr. Vasella became Chairman of the Board and Chief Executive Officer of Novartis AG in 1999, after serving as President since 1996. From 1992 to 1996, Dr. Vasella held the positions of Chief Executive Officer, Chief Operating Officer, Senior Vice President and Head of Worldwide Development and Head of Corporate Marketing at Sandoz Pharma Ltd. He also served at Sandoz Pharmaceuticals Corporation from 1988 to 1992.



MICHAEL D. WHITE, 55, was elected to PepsiCo's Board and named Vice Chairman of PepsiCo in March 2006. He continues to serve as Chief Executive Officer of PepsiCo International, a position he has held since February 2003. From 2000 to 2003, he served as President and Chief Executive Officer of Frito-Lay's Europe/Africa/Middle East division. From 1998 to 2000, Mr. White was Senior Vice President and Chief Financial Officer of PepsiCo. Mr. White has also served as Executive Vice President and Chief Financial Officer of PepsiCo Foods International and Chief Financial Officer of Frito-Lay North America. He joined Frito-Lay in 1990 as Vice President of Planning. Mr. White is also a director of Whirlpool Corporation.

OWNERSHIP OF PEPSICO COMMON STOCK BY DIRECTORS AND EXECUTIVE OFFICERS

The following table shows, as of March 9, 2007, the shares of PepsiCo Common Stock beneficially owned by each director (including each nominee), by each of the executive officers identified in the Summary Compensation Table on page 23 of this Proxy Statement ("Named Executive Officers") and by all directors and all executive officers as a group:

<u>Name of Individual or Group</u>	<u>Number of Shares of PepsiCo Common Stock Beneficially Owned(1)</u>
John F. Akers (2)	86,873
Robert E. Allen (3)	46,337
John C. Compton	754,059
Dina Dublon	1,574
Victor J. Dzau	1,574
Richard Goodman (4)	261,446
Dawn E. Hudson	490,527
Ray L. Hunt (5)	538,923
Alberto Ibargüen	2,574
Arthur C. Martinez	32,671
Indra K. Nooyi (6)	1,384,505
Steven S Reinemund (5) (7)	4,239,603
Sharon Percy Rockefeller	66,921
James J. Schiro	19,488
Franklin A. Thomas (8)	39,034
Daniel Vasella	22,572
Michael D. White	1,203,378
All directors and executive officers as a group (26 persons) (9)	12,058,193

- (1) The shares shown include the following shares that directors and executive officers have the right to acquire within 60 days after March 9, 2007 through the exercise of vested stock options: John F. Akers, 59,675 shares; Robert E. Allen, 37,014 shares; John C. Compton, 728,272 shares; Richard Goodman, 257,529 shares; Dawn E. Hudson, 468,272 shares; Ray L. Hunt, 65,327 shares; Arthur C. Martinez, 30,097 shares; Indra K. Nooyi, 1,355,956 shares; Steven S Reinemund, 4,073,677 shares; Sharon Percy Rockefeller, 34,869 shares; James J. Schiro, 16,829 shares; Franklin A. Thomas, 35,847 shares; Daniel Vasella, 16,869 shares; Michael D. White, 1,136,778 shares; and all directors and executive officers as a group, 11,017,232 shares. Except as otherwise noted, the directors and executive officers exercise sole voting and investment power over their shares shown in the table.
- (2) Mr. Akers has served as a Director of the Company since 1991 and will retire from the Board of Directors on May 2, 2007.
- (3) Mr. Allen has served as a Director of the Company since 1990 and will retire from the Board of Directors on May 2, 2007.
- (4) Mr. Goodman became Chief Financial Officer of the Company on October 1, 2006 and prior to that served as Chief Financial Officer of PepsiCo International.
- (5) The shares shown for Mr. Hunt include (i) 26,700 shares held in a corporation over which Mr. Hunt has sole voting and investment power, (ii) 262,286 shares held in trusts over which Mr. Hunt has shared voting power and sole investment power, and (iii) 152,500 shares held in a trust over which Mr. Hunt has sole voting power and no investment power. The shares shown for Mr. Reinemund include 157,920 shares over which Mr. Reinemund shares voting and investment power with his spouse.

- (6) Ms. Nooyi became Chief Executive Officer of the Company on October 1, 2006 and prior to that served as President and Chief Financial Officer of the Company. Ms. Nooyi is a member of the Board of Directors and will become Chairman of the Board on May 2, 2007.
- (7) Mr. Reinemund became Executive Chairman on October 1, 2006 and prior to that served as Chairman and Chief Executive Officer of the Company. Mr. Reinemund will be retiring from the Board of Directors and as Executive Chairman on May 2, 2007.
- (8) Mr. Thomas has served as a Director of the Company since 1994 and will retire from the Board on May 2, 2007.
- (9) The shares shown include shares of PepsiCo Convertible Preferred Stock held by one executive officer in a 401(k) account, convertible into 4,643 shares of PepsiCo Common Stock.

The following table shows, as of March 9, 2007, the number of PepsiCo Common Stock equivalents held in the PepsiCo deferred income program by each director (including each nominee), by each Named Executive Officer and by all directors and all executive officers as a group:

<u>Name of Individual or Group</u>	<u>Number of PepsiCo Common Stock Equivalents Held in PepsiCo's Deferred Income Program</u>
John F. Akers	7,045
Robert E. Allen	10,994
John C. Compton	33,199
Dina Dublon	469
Victor J. Dzau	3,842
Richard Goodman	0
Dawn E. Hudson	0
Ray L. Hunt	13,284
Alberto Ibargüen	3,373
Arthur C. Martinez	17,826
Indra K. Nooyi	51,470
Steven S Reinemund	242,945
Sharon Percy Rockefeller	0
James J. Schiro	5,827
Franklin A. Thomas	4,375
Daniel Vasella	1,562
Michael D. White	0
All directors and executive officers as a group (26 persons)	407,630

Directors and executive officers as a group own less than 1% of outstanding PepsiCo Common Stock and less than 1% of outstanding PepsiCo Convertible Preferred Stock.

CORPORATE GOVERNANCE AT PEPSICO

Board of Directors

Our business and affairs are overseen by our Board of Directors pursuant to the North Carolina Business Corporation Act and our By-laws. Members of the Board of Directors are kept informed of the Company's business through discussions with the Executive Chairman and the Chief Executive Officer, and with key members of management, by reviewing materials provided to them and by participating in Board and Committee meetings. Members of the Board of Directors are elected annually.

Regular attendance at Board meetings is required of each director. PepsiCo's Board held seven meetings during 2006. Average attendance by incumbent directors at Board and standing Committee meetings was 97%. No incumbent director attended fewer than 75% of the total number of Board and standing Committee meetings. The non-management directors met in executive session at six Board meetings in 2006. All directors attended the 2006 Annual Meeting.

In 2002, the Board of Directors adopted the Corporate Governance Guidelines. These Guidelines were amended in 2005 in accordance with the revised New York Stock Exchange Listing Standards and rules adopted by the Securities and Exchange Commission. The Guidelines were also amended in 2006 and the revised Guidelines are attached to this Proxy Statement as Exhibit A and are also available on the Company's website at www.pepsico.com under Corporate Governance in the "Investors" section and are available in print to any shareholder who requests a copy. The Company's Worldwide Code of Conduct is also available on the Company's website at www.pepsico.com under Corporate Governance in the "Investors" section and is available in print to any shareholder who requests a copy. Annually, all of PepsiCo's executive officers, other senior employees and directors sign certifications with respect to their compliance with the Company's Worldwide Code of Conduct.

Director Independence

The Board of Directors has determined that to be considered independent, a director may not have any direct or indirect material relationships with the Company. In making a determination of whether a material relationship exists, the Board considers all relevant facts and circumstances, including but not limited to the director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. In addition to the independence requirements set forth in the Corporate Governance Listing Standards of the New York Stock Exchange, the Board has determined that a director will not be independent if he serves as an executive officer, director or trustee of a tax exempt organization that has received contributions from the Company or any of its consolidated subsidiaries in any of the last three fiscal years that exceeds the greater of \$1 million or 2% of the consolidated gross revenues of such tax exempt organization for its last completed fiscal year. These independence standards were recommended by the Nominating and Corporate Governance Committee and adopted by the Board of Directors, and are detailed in full in the Corporate Governance Guidelines attached as Exhibit A to this Proxy Statement.

Consistent with these considerations, the Board has reviewed all relationships between the Company and the members of the Board and has affirmatively determined that the non-management directors standing for election listed below are independent within the meaning of the rules of the New York Stock Exchange, based on the application of the Company's independence standards.

Dina Dublon
Victor J. Dzau
Ray L. Hunt

Alberto Ibargüen
Arthur C. Martinez
Sharon Percy Rockefeller

James J. Schiro
Daniel Vasella

From May 9, 2006 through July 1, 2006, Arthur Martinez served as interim Chief Executive Officer ("Interim CEO") of International Flavors & Fragrances, Inc. (IFF), a supplier to the Company. As a result, Mr. Martinez was not considered independent under the standards for director independence adopted by the Board. Mr. Martinez temporarily stepped down from his positions on the Compensation

and Nominating and Corporate Governance Committees, although no Board or Committee meetings were held during this period. After Mr. Martinez concluded his tenure as Interim CEO of IFF, the Nominating and Corporate Governance Committee and the Board evaluated his status and determined that Mr. Martinez was independent under the independence standards adopted by the Board.

None of the non-management directors receives any fees from the Company other than those received in his or her capacity as a director.

Presiding Director

In September 2002, the Board of Directors appointed Robert E. Allen as the Presiding Director of the Board. In his capacity as the Presiding Director, Mr. Allen presides at the regularly-scheduled executive sessions of the Board, at which only non-management directors are present. He also advises the Chairman of the Board and, as appropriate, Committee chairs with respect to agendas and information needs relating to the Board and Committee meetings, and performs other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities. Effective upon Mr. Allen's retirement on May 2, 2007, Sharon Percy Rockefeller will become the Presiding Director of the Board. Shareholders and other interested parties may communicate with Mr. Allen until May 2, 2007 and Ms. Rockefeller thereafter, or with any non-management directors, by any of the following means:

- by phone at 1-866-626-0633
- by sending a letter to PepsiCo, Inc., 700 Anderson Hill Road, Purchase, New York, 10577
Attention: Presiding Director
- by submitting a communication on-line at our website www.pepsico.com under "Investors" – "Corporate Governance" – "Contact the Board of Directors"

Communications to the Board of Directors

The PepsiCo Corporate Law Department reviews all communications sent to the Board of Directors relating to the duties and responsibilities of the Board and its Committees. The Corporate Law Department maintains a log of all such communications and regularly provides a summary of communications to the Board that relate to the functions of the Board or a Board Committee or that otherwise require Board attention. Directors may at any time review the log of Board communications received by the Company and request copies or summaries of such communications. In addition, the Corporate Law Department may forward certain communications only to the Presiding Director, the Chair of the relevant Committee or the individual Board member to whom a communication is directed. Concerns relating to PepsiCo's accounting, internal accounting controls or auditing matters will be referred directly to members of the Audit Committee.

Shareholders and other interested parties may contact the Board, a Committee of the Board or an individual member of the Board by any of the following means:

- by phone at 1-866-626-0633
- by sending a letter to PepsiCo, Inc., 700 Anderson Hill Road, Purchase, New York, 10577,
Attention: Presiding Director
- by submitting a communication on-line at our website www.pepsico.com under "Investors" – "Corporate Governance" – "Contact the Board of Directors"

Political Contributions Policy

In 2005, the Board of Directors adopted a Political Contributions Policy for the Company. The Political Contributions Policy, together with other policies and procedures, including the Company's Code of Conduct, guide the Company's approach to political contributions. In connection with the development of this policy and in keeping with the Company's goals of transparency, the policy and the Company's annual political contributions are posted on our website at www.pepsico.com "Investors" – "Corporate Governance" – "Policies."

Committees of the Board of Directors

The Board of Directors has three standing Committees: Nominating and Corporate Governance, Compensation and Audit. The table below indicates the members of each Board committee:

Name	Nominating and Corporate Governance	Compensation	Audit
John F. Akers ⁽¹⁾	X	Chair	
Robert E. Allen ⁽¹⁾⁽²⁾	X	X	
Dina Dublon			X
Victor J. Dzau	X	X	
Ray L. Hunt	Chair	X	
Alberto Ibargüen			X
Arthur C. Martinez	X	X	
Indra K. Nooyi			
Steven S Reinemund ⁽¹⁾			
Sharon P. Rockefeller ⁽²⁾	X	X	
James J. Schiro			Chair
Franklin A. Thomas ⁽¹⁾			X
Cynthia M. Trudell ⁽³⁾			X
Daniel Vasella	X	X	
Michael D. White			

(1) Mr. Akers, Mr. Allen, Mr. Reinemund and Mr. Thomas are retiring from the Board of Directors as of May 2, 2007.

(2) Mr. Allen is the Presiding Director of the Board until May 2, 2007 and Ms. Rockefeller will become the Presiding Director thereafter.

(3) Ms. Trudell was a member of the Board and Audit Committee during 2006 and until February 2, 2007.

The Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee, which was established in 1997 and renamed in 2002, held four meetings in 2006. The Nominating and Corporate Governance Committee: (a) identifies and recommends to the Board for election and/or appointment qualified candidates for membership on the Board and the Committees of the Board; (b) develops and recommends to the Board corporate governance principles and the Worldwide Code of Conduct applicable to the Company and monitors compliance with all such principles and policies; (c) develops and recommends to the Board criteria to assess the independence of members of the Board; (d) makes recommendations to the Board concerning the composition, size, structure and activities of the Board and its Committees; (e) assesses and reports to the Board on the performance and effectiveness of the Board and its Committees; and (f) reviews and reports to the Board with respect to director compensation and benefits. The Nominating and Corporate Governance Committee Charter is available on the Company's website at www.pepsico.com under Corporate Governance in the "Investors" section and is also available in print to any shareholder who requests a copy. The Nominating and Corporate Governance Committee is comprised entirely of directors who meet the independence requirements of the New York Stock Exchange and applicable securities laws.

Director Nomination Process

The Nominating and Corporate Governance Committee does not solicit director nominations, but will consider recommendations for director nominees made by shareholders, if the individuals recommended meet certain minimum Board membership criteria. The Committee's assessment of Board candidates includes consideration of a candidate's: (i) relevant knowledge and diversity of background and experience in areas including business, finance, accounting, technology, marketing, international business and government; (ii) personal qualities of leadership, character, judgment and

whether the candidate possesses a reputation in the community at large of integrity, trust, respect, competence and adherence to the highest ethical standards; (iii) roles and contributions valuable to the business community and (iv) whether the candidate is free of conflicts and has the time required for preparation, participation and attendance at all meetings. Shareholder recommendations should be sent to the Secretary of PepsiCo at 700 Anderson Hill Road, Purchase, New York 10577 and must include detailed background regarding the suggested candidate that demonstrates how the individual meets the minimum Board membership criteria.

Nominations received by the Secretary of the Company from shareholders are reviewed by the Chairman of the Nominating and Corporate Governance Committee to determine whether the candidate possesses the minimum qualifications described above, and if so, whether the candidate's expertise and particular set of skills and background fit the current needs of the Board. This is done to ensure that the Board includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to the business of the Company. If the candidate meets the requirements for a current vacancy on the Board, the submission materials are reviewed with the Nominating and Corporate Governance Committee and are responded to by the Chairman of the Committee or his designee. The process for evaluation of candidates submitted by non-shareholders of the Company is handled similarly.

From time to time, the Nominating and Corporate Governance Committee engages consulting firms to perform searches for director candidates who meet the current needs of the Board. If a consulting firm is retained to assist in the search process for a director, a fee is paid to such firm.

The Audit Committee

The Audit Committee, which was established in 1967, held ten meetings in 2006. The Audit Committee's primary responsibilities are to assist the Board's oversight of: (a) the quality and integrity of the Company's financial statements and its related internal controls over financial reporting; (b) the Company's compliance with legal and regulatory requirements; (c) the independent auditor's qualifications and independence; and (d) the performance of the Company's internal audit function and the independent auditors. The report of the Audit Committee is set forth on page 13 of this Proxy Statement. The Audit Committee Charter is available on the Company's website at www.pepsico.com under Corporate Governance in the "Investors" section and is also available in print to any shareholder who requests a copy.

Financial Expertise and Financial Literacy

The Board of Directors has determined that Dina Dublon and James J. Schiro, members of our Audit Committee, satisfy the criteria adopted by the Securities and Exchange Commission to serve as "audit committee financial experts" and are independent directors, pursuant to the standards set forth in the Company's Corporate Governance Guidelines and the requirements under the Securities Exchange Act of 1934 and the New York Stock Exchange Listing Standards. In addition, the Board of Directors has determined that Dina Dublon, Alberto Ibargüen, James J. Schiro and Franklin A. Thomas, all members of our Audit Committee, are independent directors and are financially literate within the meaning of the New York Stock Exchange Corporate Governance Listing Standards.

Directors on Multiple Audit Committees

None of the Company's directors serves on the audit committee of more than three public companies.

The Compensation Committee

The Compensation Committee, which has been active since 1955, held five meetings during 2006. The Compensation Committee: (a) oversees the policies of the Company relating to compensation of the Company's executives and makes recommendations to the Board regarding the

compensation of PepsiCo's executive officers; (b) produces a report on executive compensation for inclusion in the Company's Proxy Statement; and (c) monitors the development and implementation of succession plans for the Chief Executive Officer (CEO) and other key executives, and makes recommendations to the Board with respect to such plans.

The Compensation Committee is composed entirely of independent members of the Board who are "outside directors" for purposes of Section 162(m) of the Internal Revenue Code and "non-employee directors" for purposes of Section 16 of the Securities Exchange Act of 1934. The Compensation Committee Report is set forth on page 22 of this Proxy Statement. The Compensation Committee Charter is available on the Company's website at www.pepsico.com under Corporate Governance in the "Investors" section and is also available in print to any shareholder who requests a copy.

The Compensation Committee oversees the design and administration of PepsiCo's compensation programs and evaluates PepsiCo's compensation programs against competitive practices, legal and regulatory developments and corporate governance trends. The Compensation Committee makes recommendations to the Board of Directors regarding total compensation for each executive officer, which is then reviewed and approved by the full Board of Directors. As part of its processes and procedures for determining executive compensation, the Compensation Committee annually:

- reviews and establishes the peer group companies used as a reference to benchmark Company performance and executive officer compensation;
- reviews executive officer compensation to ensure that a significant portion is performance-based to create incentives for above-target performance and consequences for below-target performance;
- reviews total compensation and benefits summaries (referred to as "tally sheets") for each executive officer to ensure the Committee understands all aspects of each executive officer's total compensation;
- approves specific performance targets, which are linked to Company, line of business or business unit performance, depending on an executive officer's position and scope of responsibility;
- confirms with the Committee's independent outside advisor that total compensation paid to each executive officer is appropriate based on an analysis that compares the Company's financial performance relative to the performance of its peer group as measured by financial metrics including long-term shareholder returns and operating performance over one-year and three-year time periods; and
- approves base salary adjustments and annual and long-term incentive award payouts for each year based on performance achieved in the prior year relative to the pre-established performance targets.

The Compensation Committee engages Mercer Human Resource Consulting as an independent outside advisor to evaluate all components of compensation and benefits provided to the executive officers relative to financial performance (see "Role of the Consultant" in the Compensation Discussion and Analysis on page 15 of this Proxy Statement). The Compensation Committee also solicits input from the Executive Chairman and the President and CEO in determining compensation for other executive officers in order to gain their perspective on individual performance and contributions. Director compensation is determined by the Board upon recommendation of the Nominating and Corporate Governance Committee.

Review and Approval of Transactions with Related Persons

On an annual basis, each director and executive officer is required to complete a questionnaire, which requires disclosure of any transactions the director or executive officer, or their immediate family members or associates, may have with the Company in which the director or executive officer, or their immediate family members or associates, has a direct or indirect material interest. The Audit Committee, which is responsible for reviewing and approving any related party transactions, considers the responses in the questionnaires and other information regarding potential relationships between the Company and the directors and executive officers. The Audit Committee has determined that there are no related party transactions to report.

Compensation Committee Interlocks and Insider Participation

None of PepsiCo's independent directors is an executive officer of a public company of which a PepsiCo executive officer is a director.

AUDIT COMMITTEE REPORT

PepsiCo's Audit Committee reports to and acts on behalf of the Board of Directors by providing oversight of the Company's independent auditors and the Company's financial management and financial reporting procedures. The Audit Committee is comprised entirely of directors who meet the independence, financial experience and other qualification requirements of the New York Stock Exchange and applicable securities laws. The Audit Committee is a separately designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934. The names of the Audit Committee members are included at the end of this Audit Committee Report. The Audit Committee operates under a written charter adopted by the Board of Directors, which is reviewed annually and is available on the Company's website at www.pepsico.com under Corporate Governance in the "Investors" section.

The Company's management has responsibility for preparing the Company's financial statements and the Company's independent auditors (independent registered public accountant) KPMG LLP ("KPMG"), is responsible for auditing those financial statements. In this context, the Audit Committee has met with management and KPMG to review and discuss the Company's audited financial statements. The Audit Committee discussed with Company management and KPMG the critical accounting policies applied by the Company in the preparation of its financial statements. These policies arise in connection with: revenue recognition and related trade spending; brand and goodwill valuations; income tax expense and accruals; stock-based compensation expense; and pension and retiree medical plans. The Company's management has represented to the Audit Committee that the financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee discussed with KPMG the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended, and the Sarbanes-Oxley Act of 2002, and had the opportunity to ask KPMG questions relating to such matters. The discussions included the quality, and not just the acceptability, of the accounting principles utilized, the reasonableness of significant accounting judgments, and the clarity of disclosures in the financial statements. The Audit Committee also discussed with Company management the process for certifications by the Company's Chief Executive Officer and Chief Financial Officer, which is required by the Securities and Exchange Commission and the Sarbanes-Oxley Act of 2002 for certain of the Company's filings with the Securities and Exchange Commission.

The Audit Committee reviewed with the Company's internal and independent auditors the overall scope and plans for their respective audits for 2006. The Audit Committee also received regular updates from the Company's General Auditor on internal control and business risks and the Company's senior officer for compliance and business practices on compliance issues. The Audit Committee meets with the internal and independent auditors, with and without management present, to discuss their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit Committee also meets with the Company's General Counsel, with and without management present, to discuss the Company's compliance with laws and regulations.

The Audit Committee reviewed and discussed with KPMG, KPMG's independence and, as part of that review, received the written disclosures required by applicable professional and regulatory standards relating to KPMG's independence from the Company. The Audit Committee also reviewed and pre-approved all fees paid to the independent auditors. These fees are described in the next section of this Proxy Statement. The Audit Committee also considered whether KPMG's provision of non-audit services to the Company was compatible with the auditor's independence. The Committee has adopted a formal policy on Audit, Audit-Related and Non-Audit Services, which is published on the Company's website and which is briefly described in the next section of this Proxy Statement. The Audit Committee concluded that the independent auditor is independent from the Company and its management.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 30, 2006, for filing with the Securities and Exchange Commission. The Audit Committee has also retained

KPMG as the Company's independent auditors for the fiscal year 2007, and the Audit Committee and the Board have recommended that shareholders ratify the appointment of KPMG as the Company's independent auditors for the fiscal year 2007.

James J. Schiro became the Chairman of the Audit Committee on May 3, 2006. Prior to Mr. Schiro, Arthur C. Martinez was a member of the Audit Committee and the Committee's Chairman from January 1, 2006 through May 2, 2006. Cynthia Trudell was a member of the Audit Committee from January 1, 2006 through February 2, 2007.

THE AUDIT COMMITTEE

DINA DUBLON
ALBERTO IBARGÜEN

JAMES J. SCHIRO, CHAIRMAN
FRANKLIN A. THOMAS

AUDIT AND NON-AUDIT FEES

The following table presents fees for professional audit services rendered by KPMG LLP, the Company's independent auditor, for the audit of the Company's annual financial statements for 2005 and 2006, and fees billed for other services rendered by KPMG LLP.

	2005	2006
Audit fees	\$16,550,000	\$18,254,000
Audit-related fees(1)	\$ 1,727,000	\$ 1,631,000
Tax fees(2)	\$ 887,000	\$ 875,000
All other fees	\$ 0	\$ 0

(1) Audit-related fees for 2005 and 2006 consisted primarily of the audits of certain employee benefit plans, due diligence reviews of certain businesses acquired and internal control reviews.

(2) Tax fees for 2005 and 2006 consisted primarily of international tax compliance services.

We understand the need for the independent auditors to maintain their objectivity and independence, both in appearance and in fact, in their audit of the Company's financial statements. Accordingly, the Audit Committee has adopted the PepsiCo Policy for Audit, Audit-Related and Non-Audit Services. The Policy provides that the Audit Committee will engage the auditor for the audit of the Company's consolidated financial statements and other audit-related work. The auditor may also be engaged for tax and other non-audit-related work if those services: enhance and support the attest function of the audit; are an extension to the audit or audit-related services; or are services with respect to which, under the circumstances, KPMG offers unique qualification and there is clearly no question regarding their independence in providing such service. The policy further provides that on an annual basis the auditor's Global Lead Audit Partner will review with the Audit Committee the services the auditor expects to provide in the coming year and the related fee estimates. In addition, PepsiCo will provide the Audit Committee with a quarterly status report regarding the Committee's pre-approval of audit-related, tax or other non-audit services that the auditor has been pre-approved to perform, has been asked to provide or may be expected to provide during the balance of the year. PepsiCo's Policy for Audit, Audit-Related and Non-Audit Services is available on the Company's website at www.pepsico.com under Corporate Governance in the "Investors" section.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy

It is critical to our long-term success and growth that our businesses are managed by highly capable leaders with the experience, skills and dedication to oversee a growing and changing global organization.

Our executive compensation philosophy is based on the principle that PepsiCo will achieve its best results if its employees act and are rewarded as business owners. Ownership is not only about owning stock, but it is also about being accountable for business results, in good times and bad. Owners act with the conviction that their business is personal and that they can make a difference. Owners take initiative and they take responsibility for the assets of the business, including its employees. As executives progress to higher levels at PepsiCo, their responsibilities, risks and rewards will progress as well.

Our compensation programs are designed to help recruit, retain and motivate a large group of talented and diverse domestic and international employees. Our programs are highly incentive-based and competitive in the marketplace, with a significant portion of total compensation determined by Company performance. As a result, when PepsiCo's financial performance is above that of our peer group average, total compensation is delivered above the peer group average. Likewise if PepsiCo's financial performance were to be below the peer group average, total compensation would be delivered below the peer group average.

Oversight of the Executive Compensation Programs

PepsiCo's executive compensation programs are overseen and administered by the Compensation Committee of the Board of Directors. For a detailed account of the Compensation Committee's annual responsibilities, see "The Compensation Committee" on page 10 of this Proxy Statement. For details on the Compensation Committee's composition, see "Committees of the Board of Directors" on page 9 of this Proxy Statement.

Peer Group

The Compensation Committee and Board utilize the same peer group to annually evaluate both executive officer pay levels and Company performance. The peer group is composed of large public consumer products companies in the Food & Beverage, Household & Personal Products and Pharmaceutical sectors that we compete with for executive officer talent and investor dollars. The Compensation Committee annually reviews and validates the peer group with the assistance of the Compensation Committee's independent outside advisor, Mercer Human Resource Consulting, to ensure all peer companies remain an appropriate basis for comparison. The following peer companies were approved by the Board, and are listed in order of 2006 revenue size (from largest to smallest), with PepsiCo shown to display its relative position: The Procter & Gamble Company; Johnson & Johnson; PepsiCo; Kraft Foods Inc.; The Coca-Cola Company; 3M Company; Kimberly-Clark Corporation; Sara Lee Corporation; Anheuser-Busch Companies, Inc.; Colgate-Palmolive Company; General Mills, Inc.; Kellogg Company; H.J. Heinz Company; Campbell Soup Company and The Estee Lauder Companies Inc. As noted by our position in the list, PepsiCo is one of the largest companies in the peer group, with 2006 revenue of \$35 billion compared to the peer group median of \$16 billion and 75th percentile of \$24 billion.

Role of the Consultant

The Compensation Committee utilizes input from Mercer Human Resource Consulting ("Mercer"), its independent outside advisor, to determine the alignment between executive officer pay and PepsiCo's financial performance relative to the Board-approved peer group. The Compensation

Committee strongly considers Mercer's analysis and advice when making compensation decisions for the Executive Chairman, the President and CEO and other executive officers. Compensation Committee members can engage or initiate contact with Mercer and have direct access to the independent advisor without management involvement. While Mercer works directly for the Compensation Committee, Mercer obtains input from management to ensure that its recommendations and advice reinforce PepsiCo's business strategy, principles and values.

Executive Compensation Policies

Pay levels for executive officers are designed to be competitive relative to our peer group companies and, most importantly, align with the Company's performance. Pay-for-performance is a critical policy in designing our executive officer compensation, and, as a result, our "pay mix," defined as the amount of fixed base salary relative to at-risk annual and long-term cash incentive awards and at-risk equity-based awards, places the greatest emphasis on variable pay incentives. As a result, over 90% of our President and CEO's target total compensation is variable and at-risk, and approximately 80% of the total compensation for our other Named Executive Officers is variable and at-risk.

To sustain PepsiCo's exceptional long-term performance, we set "stretch" financial goals that are equivalent to our peer group's 75th percentile performance (i.e., the top 25% of peer companies). Our objective is to compensate at the 75th percentile relative to our peer group only when we achieve performance at or above the 75th percentile of our peer group. To accomplish this, we annually review compensation (base salary, annual incentive awards and long-term incentive awards) provided by our peer group to set target total compensation levels for our executive officers at the peer group median for similar positions. We then utilize variable pay incentives to award pay in line with our performance. Our design ensures that our pay-for-performance programs only deliver total compensation at the 75th percentile when financial performance is at or above the peer group 75th percentile. If financial performance were to be below the peer group 75th percentile, total compensation awarded would be below the 75th percentile.

Each year, actual annual incentive and long-term incentive awards are approved by the Board based on an analysis of PepsiCo's actual performance relative to our stretch financial goals and an executive officer's individual performance and contributions to PepsiCo's strategic goals. The Compensation Committee recommends, and the Board approves, pay actions for the Executive Chairman and the President and CEO. Mercer provides market information in order to assist the Committee and the Board in making pay actions for all executive officers, including the Executive Chairman and the President and CEO. The Compensation Committee and the Board solicit input from the Executive Chairman and the President and CEO in determining pay for other executive officers to gain their perspective on individual performance and contribution.

In 2006, Mercer's independent review provided assurance that PepsiCo's executive officer total compensation program was appropriately aligned with PepsiCo's financial performance and that the programs should continue to support the attraction and retention of talent necessary to maintain our long history of strong sales growth, profitability and shareholder returns.

Components of PepsiCo's Compensation and Benefits Programs

For 2006, the primary components of our compensation and benefits programs for executive officers were (1) base salary, (2) annual incentive awards, (3) long-term incentive awards, (4) retirement programs and (5) benefits and perquisites. Each of these programs is underpinned by a number of governance features, which are highlighted at the end of this Compensation Discussion and Analysis (pages 21-22 of this Proxy Statement).

1. Base Salary. The relative levels of base salary for the Executive Chairman, the President and CEO and the other executive officers are based on the underlying accountabilities of each executive officer's position and reflect each executive officer's scope of responsibility. The salaries are reviewed annually and are benchmarked against similar positions among the peer group companies. In addition, executive officer salaries are analyzed relative to internal positions to ensure equity and

alignment of our pay within PepsiCo. Prior to 2006, all base salaries were capped at \$1.0 million to ensure company tax deductibility. In October 2006, to appropriately align with peer company prevalent practice, the President and CEO's salary was increased above this amount. Under Section 162(m) of the Internal Revenue Code, base salaries in excess of \$1.0 million delivered in a given year are not tax deductible. All base salaries for Named Executive Officers were fully deductible in 2006. Base salaries paid to our Named Executive Officers in 2006 are presented under column (c) in the 2006 Summary Compensation Table (page 23 of this Proxy Statement).

2. Annual Incentive Compensation. We provide performance-related annual incentive compensation opportunities to our executive officers under the shareholder-approved 2004 Executive Incentive Compensation Plan ("2004 EIC Plan"). Awards under the 2004 EIC Plan are designed to be fully deductible for federal income tax purposes under Section 162(m) of the Internal Revenue Code. To achieve this, we use pre-approved earnings per share and operating profit targets to establish an individual's maximum award. The Compensation Committee then exercises discretion to reduce, but not to increase, the amount of the award. In 2006, the Committee exercised this discretion in determining the amount of the actual incentive awards provided to all Named Executive Officers. The description below outlines how actual annual incentives are determined.

When determining actual incentive awards paid to executive officers, the Compensation Committee considers Company and individual performance, with Company performance weighted approximately two-thirds and individual performance weighted approximately one-third. Company performance includes financial performance measures related to volume, revenue and earnings growth. Individual performance includes measures relating to an individual's contribution to PepsiCo's strategic business and organization imperatives such as improved operating efficiencies, customer and employee satisfaction and the executive officer's management and development of people.

Our annual incentive plan utilizes performance measures which executives directly influence to ensure a direct link between performance and actual incentive awards. The specific 2006 performance measures to determine incentive awards for PepsiCo's Named Executive Officers are listed in the table below. These performance measures relate to Company (PepsiCo), reporting lines of business (e.g., PepsiCo Beverages North America), and business units (e.g., Pepsi-Cola North America) depending on the Named Executive Officer's position and scope of responsibility. For Named Executive Officers who changed positions during the year, performance measures are displayed separately for each position.

<u>Name</u>	<u>Performance Measures*</u>
Steven S Reinemund Director; Executive Chairman (Former CEO)	<ul style="list-style-type: none"> – Net Revenue – EPS – Strategic imperatives
Indra K. Nooyi Director; President & CEO (Former President & CFO)	<ul style="list-style-type: none"> – Net Income & Volume (9 Months as President & CFO) – EPS & Net Revenue (3 Months as President & CEO) – Strategic imperatives
Richard A. Goodman Chief Financial Officer (Former PepsiCo Int'l CFO)	<ul style="list-style-type: none"> – PepsiCo International (7 Months): NOPBT & Volume – PepsiCo (5 Months): Net Income & Volume – Strategic imperatives
Michael D. White Director; Vice Chairman, PepsiCo; CEO, PepsiCo International	<ul style="list-style-type: none"> – PepsiCo International: NOPBT & Volume – Strategic imperatives
John C. Compton CEO, PepsiCo North America (Former President & CEO, QTG**)	<ul style="list-style-type: none"> – PepsiCo Beverages N. America & QTG** N. America (9 Months): NOPBT & Volume – PepsiCo N. America (3 Months): NOPBT & Volume – Strategic imperatives
Dawn Hudson President & CEO, Pepsi-Cola North America	<ul style="list-style-type: none"> – PepsiCo Beverages N. America, Pepsi-Cola N. America & Foodservice: NOPBT & Volume – Strategic imperatives

* "EPS" represents earnings per share; "NOPBT" represents net operating profit before taxes and "Volume" represents unit and share growth.

** "QTG" represents the Quaker Foods/Tropicana/Gatorade Business Unit.

The range of potential incentive awards for each Named Executive Officer is listed under columns (c), (d), and (e) in the 2006 Grants of Plan-Based Awards table on page 26 of this Proxy Statement. In the case where a Named Executive Officer changed his or her position during the year, annual incentive targets were prorated based on the time the Named Executive Officer served in each position. Actual awards can range from 0% to 200% of target. After the end of 2006, the Compensation Committee evaluated PepsiCo's performance against the 2006 performance measures and determined each Named Executive Officer's actual incentive award, as shown in column (g) in the 2006 Summary Compensation Table on page 23 of this Proxy Statement.

3. Long-Term Incentive ("LTI") Compensation. Consistent with our compensation philosophy, we believe that stock ownership and stock-based incentive awards are the best way to align the interests of the executive officers with those of PepsiCo's shareholders. We have a long history of linking pay to our long-term stock performance for all employees, not just executives. This is best demonstrated by the fact that, since 1989, we have provided an annual grant of stock options to virtually all full-time U.S. employees under our broad-based stock option program, SharePower.

Executive officers' long-term incentives are comprised of:

- (a) Stock options;
- (b) Performance-based restricted stock units (RSUs) that vest only if pre-approved performance targets are achieved;
- (c) Performance-based long-term cash awards that vest over three years (our Executive Chairman and our President and CEO are not eligible for this component); and
- (d) Retention grants to key senior leaders that vest based on continued service.

The annual executive officer LTI program is designed to deliver a mix of approximately 40% stock options, 40% performance-based RSUs and 20% performance-based long-term cash. This mix was selected to provide an equal balance of equity (options and performance-based RSUs), and also provides a portion delivered in performance-based long-term cash that reflects market practice. Most executives, excluding executive officers, are provided with a choice between stock options and RSUs that vest after three years of service. However, PepsiCo's executive officers, including the Executive Chairman, the President and CEO and the other Named Executive Officers, are not provided with this choice. The value of the annual equity award for these executive officers is balanced equally between stock options and performance-based RSUs.

Target grant guidelines for executive officers vary by position and are based on competitive benchmarking, with target grant levels expressed in dollars (rather than as a percent of salary) and set to approximate the peer group median. The actual size of grants awarded to executive officers range from 0% to 150% of target based on PepsiCo's financial performance relative to the peer group, as well as each executive officer's individual contribution to PepsiCo's strategic imperatives and retention considerations. We require that awards made under the long-term incentive plans include vesting terms that encourage an executive officer to remain with PepsiCo over a number of years.

The Board authorizes all equity grants awarded to employees and directly approves individual awards to executive officers. All stock option and RSU grants are awarded under our shareholder approved 2003 Long-Term Incentive Plan at "Fair Market Value," defined as the average of the high and low stock prices rounded up to the nearest quarter on the date of grant. This formula mitigates the impact of our stock price's intra-day volatility when setting our equity awards' grant price. PepsiCo has never repriced awards. Repricing of awards would require shareholder approval under the shareholder-approved 2003 Long-Term Incentive Plan. During 2006, PepsiCo reviewed the grant practices for all outstanding stock options and RSUs (i.e., those awarded over the past ten years) and confirmed that all grants were made on pre-approved grant dates and at exercise prices or grant prices equal to the Fair Market Value on the pre-approved grant dates. Our annual grant is provided on the later of February 1st or the regularly scheduled January/February Board meeting. On February 3, 2006, the Board granted stock options and performance-based RSUs to all executive officers with a grant price of \$57.50 (the average of the low and high price on the date of grant, rounded up to the nearest quarter).

3(a). Stock Options. We believe that stock options represent performance-based compensation and are a powerful motivational tool, as they have no intrinsic value to recipients on the date of grant and they only deliver meaningful value to executive officers if PepsiCo achieves sustained, long-term stock price growth. In addition, the number of stock options an executive officer receives each year varies from 0% to 150% of target based on Company and individual performance as described above. Executive officers receive annual grants of stock options each February that generally vest after three years of service and expire after ten years. Beginning with the 2006 grant, executive officers who retire from the Company are eligible to vest in a pro-rata portion of their stock option grants based on the length of time served in proportion to the full vesting period. Executive officers who retire are also eligible to vest fully in their 2005 award currently scheduled to vest in February 2008. Dividends are not earned on stock option grants. The 2006 grant date fair value of stock option awards to our Named Executive Officers are presented under column (l) in the 2006 Grants of Plan-Based Awards table on page 26 of this Proxy Statement.

3(b). Performance-Based Restricted Stock Units. Annual grants of performance-based restricted stock units provided to executive officers vest based on PepsiCo achieving pre-defined earnings per share targets over a three-year performance period. The earnings per share performance targets are approved each year by the Board of Directors. Earnings per share targets for the performance-based RSUs have never been adjusted or "reset," and management does not have the authority to do so.

Earnings per share targets are stretch financial goals and are set to achieve approximately 75th percentile financial performance relative to the peer group over the three-year performance period. When these earnings targets are achieved, executive officers are eligible to receive the full award. If PepsiCo were to perform below the pre-established earnings target, the number of shares paid out would be reduced. No shares would be paid out if PepsiCo were to perform below the peer group median. In no circumstances would the award be increased, even if PepsiCo were to exceed the earnings target.

Notwithstanding the attainment of the three-year earnings targets, the Board retains the right to reduce, but not increase, the size of the award that would otherwise be paid. Executive officers forfeit all performance-based RSUs if they leave PepsiCo prior to the completion of the three-year performance period. Executive officers who retire from the Company are eligible to receive a pro-rata portion of performance-based RSUs based on the length of time served in proportion to the full vesting period; however, payment of the final award remains contingent on achieving the applicable performance targets. The 2006 grant date fair value of performance-based RSUs to our Named Executive Officers is included under column (l) in the 2006 Grants of Plan-Based Awards table on page 26 of this Proxy Statement. Executive officers earn dividend equivalents on their RSUs during the vesting period that are paid out (without interest) only if and when the corresponding RSUs vest.

3(c). Performance-Based Long-Term Cash. Executive officers have a performance-based long-term cash target award opportunity (expressed as a percent of salary), with the exception of the Executive Chairman and the President and CEO who are not eligible. The amount of the actual award (as a percent of target) is determined based on achievement of the same annual performance goals used for annual incentive compensation (see "Annual Incentive Compensation" discussion on page 17 of this Proxy Statement for details); however, the award vests and pays out in equal installments over three years. The executive officers only receive the full value of these awards if they remain employed through the vesting period. Executive officers who retire from the Company are eligible to receive the full value of their unvested performance-based long-term cash awards. The value of the 2006 performance-based long-term cash awards to our Named Executive Officers is included under column (g) in the 2006 Summary Compensation Table on page 23 of this Proxy Statement.

3(d). Retention Grants. The Board of Directors selectively awards retention equity grants to leaders who are critical to business continuity and growth. These awards typically consist of restricted stock units with vesting periods designed to facilitate retention through key business and/or career milestones. The awards have no value unless the executive remains employed with PepsiCo for the

full vesting period, and the awards are cancelled if the executive terminates or retires. The grant date fair value of retention grants awarded in 2006 to Named Executive Officers are included under column (I) in the 2006 Grants of Plan-Based Awards table on page 26 of this Proxy Statement.

4. Retirement Programs. Our retirement programs consist of a defined benefit pension plan, retiree medical coverage and a 401(k) plan. Our defined benefit pension plan is designed to facilitate the retirement of employees who have performed at PepsiCo over the long term. Benefits are calculated based on service, base salary and annual incentive compensation. Awards of stock options, restricted stock units and performance-based long-term cash are not considered when determining pension benefits. Executive benefits are calculated using the same formula as other salaried employees; however, because of IRS compensation and benefit limits applicable to PepsiCo's qualified pension plan, a significant portion of an executive officer's pension is typically provided by a non-qualified, unfunded pension plan. As a result, pension benefits are provided to Named Executive Officers under two plans, a qualified and a non-qualified plan. The present value of each Named Executive Officer's accumulated benefit under the qualified and non-qualified pension plans are set forth in the 2006 Pension Benefits table on page 30 of this Proxy Statement. The narrative following the 2006 Pension Benefits table on pages 30-31 of this Proxy Statement describes the plans' material features.

Named Executive Officers are eligible for retiree medical coverage. This benefit is available to all salaried employees based on age and service, and our executives who enroll for coverage are required to pay twice as much for their coverage as other retirees.

Executive deferrals into the 401(k) Plan and Company matching contributions are also limited by IRS regulations. While the Company does permit most executives to defer their base salary and annual incentive compensation, PepsiCo does not provide an excess plan to offset 401(k) limitations nor do we provide executives with special benefit plans such as executive life insurance.

5. Benefits and Perquisites.

5(a). Benefits. Executives generally receive the same healthcare benefits as other employees. U.S.-based medical benefits are the same for all participants in the Company's healthcare program; however, our executives are required to pay twice as much for their coverage. All of our employees, including executive officers, are eligible to participate in HealthRoads, PepsiCo's broad-based wellness program. HealthRoads provides our employees with personal health coaching recommendations and encouragement to reach exercise, weight management, nutrition, smoking cessation and stress management goals. In addition, executive officers who relocate at PepsiCo's request are supported under the relocation program available to all PepsiCo employees. The program covers relocation expenses and applicable reimbursement of taxes associated with moving.

5(b). Perquisites. Consistent with our philosophy of making compensation primarily performance-based, executive perquisites are limited to a company car and annual physical. Personal use of company aircraft and ground transportation are also available and are utilized on a limited and selective basis, with executives fully responsible for their tax liabilities associated with any personal use of aircraft and ground transportation. Executive officers do not receive other perquisites such as country clubs, financial planning or company-paid apartments.

5(c). Change-in-Control Provisions. All employees, including Named Executive Officers, and non-employee directors are provided change-in-control protections under our shareholder-approved 2003 Long-Term Incentive Plan. For all grants in 2007 and thereafter, stock options vest and RSUs are paid if the participant is terminated without cause or resigns for good reason within two years following a change in control of PepsiCo or if the acquiring entity fails to assume the awards ("double trigger"). We adopted "double trigger" vesting to ensure management talent would be available to assist in the successful integration following a change in control and to align with emerging governance trends. The proposed 2007 Long-Term Incentive Plan being submitted to shareholders for approval at the 2007 Annual Meeting includes the same "double trigger" vesting.

For all grants prior to 2007, stock options vest and RSUs are paid upon a change in control of PepsiCo. In the event a participant is terminated without cause within two years following the change in

control or the participant's options are adversely modified, the participant receives a payment equal to the present value of his or her outstanding pre-2007 options at the time of such event calculated using the Black-Scholes formula.

Named Executive Officers are not eligible to receive any cash severance, continued health and welfare benefits, pension service credit, tax gross-ups or any other change-in-control benefits other than the change-in-control protections under our 2003 Long-Term Incentive Plan described above.

5(d). Executive Deferral. Under PepsiCo's executive deferral program, most U.S.-paid executives can elect to not receive all or a portion of their base salary or annual cash incentive awards and defer those amounts into investment funds which grow on a tax-deferred basis. Prior to 2004, stock option gains and performance-based long-term cash awards were also eligible for deferral. If stock options were deferred, they were required to have been exercised within one month of expiration and the gains were required to have been deferred into the PepsiCo Common Stock Fund. Executives have the opportunity to invest their deferrals into nine market-based funds, including the PepsiCo Common Stock Fund. Beginning in 2007, an investment fund is offered that earns interest at 120% of the Long-term Applicable Federal Rate (as published by the U.S. Treasury). Prior to December 31, 2006, an investment fund was offered that earned interest at market Prime Rate. In 2006, the difference between Prime Rate and 120% of the Long-term Applicable Federal Rate was approximately 1.9%. This difference accounted for the above-market interest reflected in column (h) of the 2006 Summary Compensation Table on page 23 of this Proxy Statement. The change in 2007 from the Prime Rate fund to the new fund directly aligns with the SEC's definition of "on market" investment returns and will eliminate any reference to above market interest on a go forward basis.

PepsiCo does not match an executive's deferrals. PepsiCo's executive deferral program is non-qualified and unfunded where deferred compensation is unsecured and at-risk, meaning the balances may be forfeited in the event of the Company's financial distress such as bankruptcy. At the time of election to defer, executives are required to choose to receive future payments on either a specific date or upon separation from service (i.e., termination or retirement). Payments are made in cash and may be received as a lump sum or in installments (quarterly, semi-annually or annually) over a period up to 20 years. Deferrals are paid at the time of termination in cases when termination (other than retirement) occurs prior to the elected payment date. In order to comply with Internal Revenue Code Section 409A, any payments to senior executives are delayed six months following separation from service. Executives have one opportunity to voluntarily delay their original payment date, provided they make this choice at least twelve months prior to the original payment date and payment is delayed for at least five years.

Additional Features of our Executive Compensation Programs

Our Compensation and Benefit programs operate with the following governance features:

Stock Ownership. To reinforce our ownership philosophy, executive officers are required to own shares of PepsiCo stock equal to a specified multiple of their salary under the Board-approved stock ownership guidelines. The applicable multiples vary between two and eight times base salary based on an executive officer's position. PepsiCo shares or equivalents held directly by the executive officer (or immediate family members), in the 401(k) Plan, deferred compensation account, or in a trust for the benefit of immediate family members, count towards satisfying the requirement. Unexercised stock options and unvested restricted stock units do not count towards satisfying the requirement.

Executive officers have five years from their appointment to meet their ownership guideline requirement. All of our executive officers have met or are in a position to meet their objectives within the five-year time requirement.

Exercise and Hold Policy. To ensure that our executive officers exhibit a strong commitment to PepsiCo share ownership, the Board of Directors adopted an Exercise and Hold Policy. Under this policy, annual option exercises for cash are limited to 20% of pre-tax gains on all vested outstanding options as of February 1 of that year. Any proceeds in excess of this 20% limit must be held in PepsiCo shares for at least one year after the date of exercise.

Employment Contracts. Named Executive Officers, including the Executive Chairman and the President and CEO, do not have employment contracts. Consistent with our approach of rewarding performance, employment is not guaranteed; thus the Company or the Named Executive Officer may terminate the employment relationship at any time. All executives are subject to non-compete, non-solicitation and non-disclosure policies under signed equity agreements provided under our shareholder-approved 2003 Long-Term Incentive Plan.

Clawback Provision. Under the terms of our 2003 Long-Term Incentive Plan and our executive deferral program, employees, including Named Executive Officers, who violate PepsiCo's Worldwide Code of Conduct, who violate our non-compete, non-solicitation and non-disclosure policies or who engage in gross misconduct may be subject to financial consequences. Our 2003 Long-Term Incentive Plan permits PepsiCo to cancel an executive's outstanding equity awards, including both vested and unvested awards, if PepsiCo determines that the executive has committed any such violation. Both the 2003 Long-Term Incentive Plan and our executive deferral program also permit PepsiCo to claw back all gains from exercised stock options and vested restricted stock units received within the 12 months preceding the violation, as well as any gains earned on contributions to the Company's executive deferral program.

Hedging. Executive officers and non-employee directors are prohibited from using any strategies or products (e.g. derivative securities or short-selling techniques) to hedge against the potential changes in the value of PepsiCo stock.

Trading Windows. Executive officers and non-employee directors can only purchase and sell PepsiCo stock and exercise stock options during approved trading windows.

Summary

PepsiCo's compensation practices and compensation philosophy are designed to align executive interests with those of shareholders. We believe our pay programs, which have a strong pay-for-performance orientation, will continue to assist the Company to attract, retain and motivate the key talent PepsiCo needs to continue to compete and provide strong return to shareholders.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on our reviews and discussion with management, the Compensation Committee recommended to the Board of Directors, and the Board has approved, that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

JOHN F. AKERS, CHAIRMAN
ROBERT E. ALLEN
VICTOR J. DZAU
RAY L. HUNT

ARTHUR C. MARTINEZ
SHARON PERCY ROCKEFELLER
DANIEL VASELLA

2006 SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary \$(3) (c)	Bonus \$(4) (d)	Stock Awards \$(5) (e)	Option Awards \$(5) (f)	Non- Equity Incentive Plan Compensation \$(6) (g)	Change in Pension Value and Non- Qualified Deferred Compensation Earnings \$(7) (h)	All Other Compensation \$(8) (i)	Total \$(j)
Steven S Reinemund (1) Director; Executive Chairman	2006	1,000,000	0	6,220,781	3,960,734	5,000,000	3,863,710	197,817	20,243,042
Indra K. Nooyi (1) Director; President and Chief Executive Officer	2006	964,413	0	2,006,876	2,353,440	3,000,000	898,884	153,506	9,377,119
Richard A. Goodman (1) Chief Financial Officer	2006	470,508	0	619,224	290,339	696,007	491,459	27,614	2,595,151
Michael D. White Director; Vice Chairman, PepsiCo; Chief Executive Officer, PepsiCo International	2006	894,856	0	2,519,696	1,555,591	2,812,000	1,194,115	91,315	9,067,573
John C. Compton (2) Chief Executive Officer, PepsiCo North America	2006	767,212	0	733,719	1,567,322	1,360,681	414,828	112,815	4,956,577
Dawn Hudson President and Chief Executive Officer, Pepsi- Cola North America	2006	731,154	0	1,108,620	1,541,332	1,114,518	383,373	62,073	4,941,070

- (1) Effective October 1, 2006, Mr. Reinemund transitioned from his position as Chairman and Chief Executive Officer to Executive Chairman of the Board, Ms. Nooyi was promoted from President and Chief Financial Officer to President and Chief Executive Officer and Mr. Goodman was promoted from Chief Financial Officer of PepsiCo International to Chief Financial Officer of PepsiCo.
- (2) Effective September 15, 2006, Mr. Compton was promoted from President and Chief Executive Officer of Quaker-Tropicana-Gatorade to Chief Executive Officer of PepsiCo North America.
- (3) Salary amounts reflect the actual base salary payments made to the Named Executive Officers in 2006.
- (4) "Bonus" refers to non-performance-based guaranteed cash payments. In 2006, no guaranteed payments were made to any Named Executive Officer as all cash incentives were performance-based and are reflected in column (g) of the table above, labeled "Non-Equity Incentive Plan Compensation."
- (5) Stock Awards (column (e)) and Option Awards (column (f)) represent restricted stock unit grants and stock option grants, respectively, for which PepsiCo recorded 2006 compensation expense. Under the required FAS 123(R) methodology, the compensation expense reflected in columns (e) and (f) is for grants made in 2006 and grants made in prior years which continued to be expensed in 2006. The full FAS 123(R) grant date fair value of the Stock Awards and Option Awards granted in 2006 is included in column (l) in the 2006 Grants of Plan-Based Awards table on page 26 of this Proxy Statement. The assumptions used in calculating the FAS 123(R) compensation expense of the Stock Awards and Option Awards are provided in the Company's Annual Report on Form 10-K for the applicable fiscal years which are available at www.pepsico.com.
- (6) As described in the "Annual Incentive Compensation" and "Performance-Based Long-Term Cash" sections of the Compensation Discussion and Analysis on pages 17 and 19, respectively, the amounts reported in this column reflect compensation earned for 2006 performance under the annual incentive compensation program and the full value of the performance-based long-term cash award.
- (i) For Mr. Reinemund, the amount reported reflects compensation earned for 2006 performance under the annual incentive compensation program. The amount does not include a performance-based long-term cash award, as Mr. Reinemund is not eligible to participate in that program.
- (ii) For Ms. Nooyi, the amount reported reflects compensation earned for 2006 performance under the annual incentive compensation program. The amount does not include a performance-based long-term cash award, as Ms. Nooyi is not eligible to participate in that program. In addition to the amounts listed in the table, in March 2007, Ms. Nooyi received \$184,503 representing one-third of the performance-based long-term cash award earned for 2004 performance and \$209,333 representing one-third of the performance-based long-term cash award earned for 2005 performance.

- (iii) For Mr. Goodman, the amount reported reflects \$479,001 earned for 2006 performance under the annual incentive compensation program and \$217,006 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2007, Mr. Goodman received \$58,760 representing one-third of the performance-based long-term cash award earned for 2004 performance and \$55,213 representing one-third of the performance-based long-term cash award earned for 2005 performance. If Mr. Goodman were to have retired at year-end 2006, he would have received an additional \$55,213 which represents the final one-third of the performance-based long-term cash award earned for 2005 performance.
 - (iv) For Mr. White, the amount reported reflects \$2,109,000 earned for 2006 performance under the annual incentive compensation program and \$703,000 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2007, Mr. White received \$198,997 representing one-third of the performance-based long-term cash award earned for 2004 performance and \$212,173 representing one-third of the performance-based long-term cash award earned for 2005 performance.
 - (v) For Mr. Compton, the amount reported reflects \$1,003,781 earned for 2006 performance under the annual incentive compensation program and \$356,900 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2007, Mr. Compton received \$71,747 representing one-third of the performance-based long-term cash award earned for 2004 performance and \$138,950 representing one-third of the performance-based long-term cash award earned for 2005 performance.
 - (vi) For Ms. Hudson, the amount reported reflects \$817,313 earned for 2006 performance under the annual incentive compensation program and \$297,205 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2007, Ms. Hudson received \$105,657 representing one-third of the performance-based long-term cash award earned for 2004 performance and \$122,443 representing one-third of the performance-based long-term cash award earned for 2005 performance.
- (7) The amounts reported reflect (i) the aggregate change in 2006 in the actuarial present value of each Named Executive Officer's accumulated benefit under the defined benefit pension plans in which he or she participates and (ii) the "above-market" earnings, if any, on income previously earned and deferred by each Named Executive Officer under PepsiCo's executive deferral program. The executive deferral program is described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement. The change in pension value included in column (h) reflects the impact of changes in age, service and earnings during 2006 and the impact of a change in the discount rate used to determine the present value from 5.65% on September 30, 2005 to 5.8% on September 30, 2006. Details on the methodology for calculating PepsiCo's pension plan accumulated benefit obligation are included in the narrative description to the 2006 Pension Benefits table on pages 30-31 of this Proxy Statement.
- (i) For Mr. Reinemund, the amount includes: (i) \$3,467,281 representing the aggregate change in 2006 in the actuarial present value of Mr. Reinemund's accumulated benefit under the defined benefit pension plans in which he participates and (ii) \$396,429 on income previously earned and deferred by him under PepsiCo's executive deferral program. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.
 - (ii) For Ms. Nooyi, the amount includes: (i) \$784,793 representing the aggregate change in 2006 in the actuarial present value of Ms. Nooyi's accumulated benefit under the defined benefit pension plans in which she participates and (ii) \$114,091 on income previously earned and deferred by her under PepsiCo's executive deferral program. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.
 - (iii) For Mr. Goodman, the amount includes: (i) \$468,203 representing the aggregate change in 2006 in the actuarial present value of Mr. Goodman's accumulated benefit under the defined benefit pension plans in which he participates and (ii) \$23,256 on income previously earned and deferred by him under PepsiCo's executive deferral program. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.
 - (iv) For Mr. White, the amount represents the aggregate change in 2006 in the actuarial present value of Mr. White's accumulated benefit from the defined benefit pension plans in which he participates. This amount does not include deferred compensation earnings, as Mr. White had not participated in the program as of year-end 2006.
 - (v) For Mr. Compton, the amount includes: (i) \$412,718 representing the aggregate change in 2006 in the actuarial present value of Mr. Compton's accumulated benefit under the defined benefit pension plans in which he participates and (ii) \$2,110 on income previously earned and deferred by him under PepsiCo's executive deferral program. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.
 - (vi) For Ms. Hudson, the amount represents the aggregate change in 2006 in the actuarial present value of Ms. Hudson's accumulated benefit under the defined benefit pension plans in which she participates. This amount does not include deferred compensation earnings, as Ms. Hudson had not participated in the program as of year-end 2006.
- (8) Amounts reported include personal use of company aircraft and ground transportation, car allowance and applicable taxes, relocation benefits and tax reimbursement on such benefits, executive physical benefits and the Company's matching

contribution into the PepsiCo Salaried 401(k) Plan. Personal use of Company aircraft and ground transportation is valued based on the aggregate incremental cost to the Company. For this purpose, the Company has calculated the aggregate incremental cost based on the variable operating costs that were incurred as a result of personal use of the aircraft (such as fuel, maintenance, landing fees and crew expenses) or ground transportation (such as fuel and the driver's compensation). The Named Executive Officers are fully responsible for all taxes associated with any personal use of aircraft and ground transportation.

- (i) For Mr. Reinemund, the amount reported includes: (i) \$160,557 for personal use of Company aircraft; (ii) \$745 for the personal use of ground transportation; (iii) \$24,137 car allowance, inclusive of applicable taxes of \$8,387; and (iv) \$7,500 Company matching contributions into the PepsiCo Salaried 401(k) Plan.
- (ii) For Ms. Nooyi, the amount reported includes: (i) \$113,289 for personal use of Company aircraft; (ii) \$7,333 for the personal use of ground transportation; (iii) \$24,137 car allowance, inclusive of applicable taxes of \$8,387; and (iv) \$6,600 Company matching contributions into the PepsiCo Salaried 401(k) Plan.
- (iii) For Mr. Goodman, the amount reported includes: (i) \$22,585 car allowance, inclusive of applicable taxes of \$7,573; and (ii) \$4,400 Company matching contributions into the PepsiCo Salaried 401(k) Plan.
- (iv) For Mr. White, the amount reported includes: (i) \$59,064 for personal use of Company aircraft; (ii) \$467 for the personal use of ground transportation; (iii) \$24,137 car allowance, inclusive of applicable taxes of \$8,387; and (iv) \$6,600 Company matching contributions into the PepsiCo Salaried 401(k) Plan.
- (v) For Mr. Compton, the amount reported includes: (i) \$46,033 for personal use of Company aircraft; (ii) \$24,137 car allowance, inclusive of applicable taxes of \$8,387; (iii) \$34,510 relocation allowances and reimbursement of relocation expenses incurred as a result of the Company's decision to relocate Mr. Compton from Dallas to Chicago in 2005 after assuming his role as President and Chief Executive Officer, Quaker-Tropicana-Gatorade, inclusive of applicable taxes of \$3,971; and (iv) \$6,100 Company matching contributions into the PepsiCo Salaried 401(k) Plan.
- (vi) For Ms. Hudson, the amount reported includes: (i) \$28,604 for personal use of Company aircraft; (ii) \$208 for the personal use of ground transportation; (iii) \$25,402 for Company car expenses, inclusive of applicable taxes of \$8,387; and (iv) \$6,812 for the Company matching contributions into the PepsiCo Salaried 401(k) Plan.

2006 GRANTS OF PLAN-BASED AWARDS ⁽¹⁾

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards (3)			All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Opts (#) (j)	Exercise or Base Price of Option Awards (\$/Sh) (k)	Grant Date Fair Value of Stock and Option Awards (\$)(6) (l)
		Threshold(\$) (c)	Target(\$) (d)	Maximum(\$) (e)	Threshold(#) (f)	Target(#) (g)	Maximum(#) (h)				
Steven S. Reinemund	—	0	3,500,000	7,000,000	—	—	—	—	—	—	—
	2/3/2006	—	—	—	0	93,168	93,168	—	—	—	5,357,160
	2/3/2006	—	—	—	—	—	—	—	373,714	57.50	5,545,916
Indra K. Nooyi	—	0	2,600,000	5,200,000	—	—	—	—	—	—	—
	2/3/2006	—	—	—	0	17,974	17,974	—	—	—	1,033,505
	2/3/2006	—	—	—	—	—	—	—	72,705	57.50	1,078,942
Richard A. Goodman	—	0	414,792	829,583	—	—	—	—	—	—	—
	—	0	187,917	375,833	—	—	—	—	—	—	—
	2/3/2006	—	—	—	0	0 (4)	0 (4)	16,956 (4)	—	—	974,970
	2/3/2006	—	—	—	—	—	—	—	360 (4)	57.50	4,460
	9/15/2006	—	—	—	—	—	—	15,385 (5)	—	—	1,000,025
Michael D. White	—	0	1,500,000	3,000,000	—	—	—	—	—	—	—
	—	0	500,000	1,000,000	—	—	—	—	—	—	—
	2/3/2006	—	—	—	0	17,974	17,974	—	—	—	1,033,505
	2/3/2006	—	—	—	—	—	—	—	72,705	57.50	1,078,942
	9/15/2006	—	—	—	—	—	—	76,923 (5)	—	—	4,999,995
John C. Compton	—	0	967,500	1,935,000	—	—	—	—	—	—	—
	—	0	344,000	688,000	—	—	—	—	—	—	—
	2/3/2006	—	—	—	0	12,596	12,596	—	—	—	724,270
	2/3/2006	—	—	—	—	—	—	—	51,124	57.50	758,680
	11/17/2006	—	—	—	—	—	—	80,321 (5)	—	—	4,999,982
Dawn Hudson	—	0	808,500	1,617,000	—	—	—	—	—	—	—
	—	0	294,000	588,000	—	—	—	—	—	—	—
	2/3/2006	—	—	—	0	12,596	12,596	—	—	—	724,270
	2/3/2006	—	—	—	—	—	—	—	51,124	57.50	758,680
	9/15/2006	—	—	—	—	—	—	76,923 (5)	—	—	4,999,995

- (1) Details on PepsiCo's long-term incentive programs are described in the "Long-Term Incentive Compensation" section of the Compensation Discussion and Analysis on pages 18-20 of this Proxy Statement. Stock option and restricted stock unit awards were granted on the date of Board approval, with both the stock option exercise and the restricted stock unit base price determined based on the average of the high and low price of PepsiCo Common Stock on the date of grant rounded up to the nearest quarter.
- (2) The amounts reported include the potential range of incentive awards for 2006 under the annual incentive compensation program and the performance-based long-term cash incentive program, as described in the "Annual Incentive Compensation" and "Performance-Based Long-Term Cash" sections of the Compensation Discussion and Analysis on pages 17 and 19, respectively. For Mr. Reinemund and Ms. Nooyi, the range reflects the potential payout under the annual incentive program and does not include potential awards under the performance-based long-term cash award, as they are not eligible to participate in that program. For the other Named Executive Officers, the numbers in the first row reflect the potential payout range under the annual incentive program and the numbers in the second row reflect the potential payout range under the performance-based long-term cash incentive program.
- (3) The amounts reported in the "target" and "maximum" columns reflect the maximum number of performance-based restricted stock units granted to each Named Executive Officer on February 3, 2006. These awards will vest and be paid out in February 2009 only if PepsiCo achieves annual earnings per share targets over the three-year vesting period and if the officer remains employed with PepsiCo through the vesting date. The "maximum" and "target" values are the same and cannot be increased above target, even if PepsiCo were to exceed the earnings target. If PepsiCo were to perform below the pre-established earnings targets, the number of shares paid out would be reduced. Additional details are described in the "Performance-Based Restricted Stock Units" section of the Compensation Discussion and Analysis on page 19 of this Proxy Statement.
- (4) Beginning in 2007, as a result of Mr. Goodman's promotion to the executive officer position of Chief Financial Officer, he receives performance-based restricted stock units. In 2006, Mr. Goodman received service-based restricted stock units which vest and payout through February 1, 2009. These RSUs were granted under our long-term incentive program which provides executives (excluding executive officers) with the choice to elect to receive stock options, restricted stock units or a combination thereof.
- (5) The amounts reported reflect Board-approved retention restricted stock unit grants. The extended vesting periods of these awards vary by individual and are designed to facilitate retention of these individuals through key business and/or career milestones. The awards only vest if the Named Executive Officer remains employed with PepsiCo for the full vesting period and are cancelled if he or she terminates employment or retires prior to the end of the vesting period. For additional details on specific vesting schedules, see footnote (2) of the 2006 Outstanding Equity Awards at Fiscal Year End table on page 27 of this Proxy Statement.
- (6) The amounts reported represent the full grant date fair value of all long-term incentive awards (restricted stock units and stock options) granted to Named Executive Officers in 2006 following the required FAS 123(R) compensation expense methodology. For restricted stock units, grant date fair value is calculated using the fair value of PepsiCo Common Stock on the grant date, and for stock options, grant date fair value is calculated using the Black-Scholes value on the grant date. The assumptions used in calculating the FAS 123(R) grant date fair value of these awards are provided in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 which is available at www.pepsico.com.

2006 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END (1)

Name (a)	Option Awards				Stock Awards (3)				
	Number of Securities Underlying Unexercised Options(#) Exercisable (b)	Number of Securities Underlying Unexercised Options(#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options(#) (d)	Option Exercise Price(\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested(#) (g)	Market Value of Shares or Units of Stock That Have Not Vested(\$) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (4) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j)
Steven S Reinemund (5)		750,000 (2)		45.51	7/25/2016			93,168	5,827,658
		373,714		57.50	1/31/2016			91,694	5,735,460
		367,893		53.75	1/31/2015			87,982	5,503,274
		353,198		47.25	1/31/2014				
	864,717			39.75	1/31/2013				
	758,357			50.00	1/31/2012				
	750,000			45.51	7/25/2011				
	605,672			43.50	1/31/2011				
	182,985			34.00	1/31/2010				
	190,394			32.25	1/31/2010				
	144,945			38.50	1/31/2009				
	71,890			18.58	1/27/2009				
	753,409			27.38	1/25/2009				
	8,892			36.50	1/31/2008				
Indra K. Nooyi (6)		375,000 (2)		45.51	7/25/2016	105,820 (2)	6,619,041	17,974	1,124,274
		72,705		57.50	1/31/2016			19,228	1,202,711
		77,777		53.75	1/31/2015			21,865	1,367,656
		88,444		47.25	1/31/2014				
	235,379			39.75	1/31/2013				
	175,932			50.00	1/31/2012				
	375,000			45.51	7/25/2011				
	197,293			43.50	1/31/2011				
	104,125			34.00	1/31/2010				
	167,435			32.25	1/31/2010				
	12,348			38.50	1/31/2009				
Richard A. Goodman (7)		360		57.50	1/31/2016	15,385 (2)	962,332		
		385		53.75	1/31/2015	16,956	1,060,598		
		55,464		47.25	1/31/2014	12,093	756,417		
	81,458			39.75	1/31/2013				
	55,260			50.00	1/31/2012				
	10,955			44.50	1/31/2011				
	41,379			43.50	1/31/2011				
	13,013			43.25	1/31/2010				
Michael D. White (8)		72,705		57.50	1/31/2016	76,923 (2)	4,811,534	17,974	1,124,274
		150,000 (2)		43.50	1/31/2016	105,820 (2)	6,619,041	19,228	1,202,711
		77,777		53.75	1/31/2015			21,865	1,367,656
		88,444		47.25	1/31/2014				
	235,966			39.75	1/31/2013				
	147,180			50.00	1/31/2012				
	310,603			43.50	1/31/2011				
	96,508			34.00	1/31/2010				
	180,769			32.25	1/31/2010				
	77,308			38.50	1/31/2009				
John C. Compton (9)		150,000 (2)		41.50	7/17/2017	80,321 (2)	5,024,079	12,596	787,880
		51,124		57.50	1/31/2016			11,791	737,527
		47,799		53.75	1/31/2015			10,476	655,274
		150,000 (2)		39.50	7/28/2014				
		42,629		47.25	1/31/2014				
	108,590			39.75	1/31/2013				
		150,000 (2)		41.50	7/17/2012				
	76,100			50.00	1/31/2012				
	82,185			43.50	1/31/2011				
	60,041			34.00	1/31/2010				
	124,296			32.25	1/31/2010				
	150,000			39.50	7/28/2009				
	43,482			38.50	1/31/2009				
	40,949			36.50	1/31/2008				

Name (a)	Option Awards					Stock Awards (3)			
	Number of Securities Underlying Unexercised Options(#) Exercisable (b)	Number of Securities Underlying Unexercised Options(#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options(#) (d)	Option Exercise Price(\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested(#) (g)	Market Value of Shares or Units of Stock That Have Not Vested(\$) (h)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)(4) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested(\$) (j)
Dawn Hudson (10)		200,000 (2)		41.50	7/17/2017	76,923 (2)	4,811,534	12,596	787,880
		51,124		57.50	1/31/2016			12,698	794,260
		51,507		53.75	1/31/2015			14,444	903,472
		58,593		47.25	1/31/2014				
	127,499			39.75	1/31/2013				
		200,000 (2)		41.50	7/17/2012				
	200,000			41.50	7/17/2012				
	79,347			50.00	1/31/2012				
	85,233			43.50	1/31/2011				
	6,980			34.00	1/31/2010				
	11,444			38.50	1/31/2009				

- (1) For information on the material terms and conditions of the equity awards reported in this table, please see the "Long-Term Incentive Compensation" section of the Compensation Discussion and Analysis on pages 18-20 of this Proxy Statement. No stock options or restricted stock units granted to a Named Executive Officer have been transferred to any other person, trust or entity. With the exception of the retention grants discussed in footnote 2 below, each of the stock option and performance-based restricted stock unit awards listed in the table vest three years after the Grant Date subject to continued service with PepsiCo through the vesting date and, in the case of performance-based restricted stock units, achievement of applicable earnings targets.
- (2) These Board-approved awards were designed to facilitate retention of leaders who are critical to business continuity and growth. The vesting periods of these awards vary by individual and were designed to facilitate retention through key business and/or career milestones. The awards have no value unless the Named Executive Officer remains employed with PepsiCo for the full vesting period and are cancelled if he or she terminates employment or retires prior to the end of the vesting period. For example, Mr. Reinemund's retention grant of 750,000 stock options which vest on July 26, 2011 will be forfeited upon his planned retirement in May 2007. The retention grants have the following vesting periods:

Option Awards

Name	Number of Options	Exercise Price	Vesting Period	Vesting Date	Expiration Date
S. Reinemund	750,000	\$45.51	10 years	7/26/2011	7/25/2016
I. Nooyi	375,000	\$45.51	10 years	7/26/2011	7/25/2016
M. White	150,000	\$43.50	10 years	2/1/2011	1/31/2016
J. Compton	150,000	\$41.50	10 years	7/18/2012	7/17/2017
J. Compton	150,000	\$39.50	10 years	7/29/2009	7/28/2014
J. Compton	150,000	\$41.50	5 years	7/18/2007	7/17/2012
D. Hudson	200,000	\$41.50	10 years	7/18/2012	7/17/2017
D. Hudson	200,000	\$41.50	5 years	7/18/2007	7/17/2012

Restricted Stock Unit Awards

Name	Number of RSUs	Vesting Period	Vesting Date
I. Nooyi	105,820	5 years	2/1/2009
R. Goodman	15,385	3 years	9/15/2009
M. White	76,923	3 years	9/15/2009
M. White	105,820	5 years	2/1/2009
J. Compton	48,193	8 years	11/17/2014
J. Compton	32,128	4 years	11/17/2010
D. Hudson	30,769	5 years	9/15/2011
D. Hudson	46,154	3 years	9/15/2009

- (3) The market value of unvested RSUs and unvested performance-based RSUs reflected in columns (h) and (j) have been valued by multiplying the number of unvested RSUs reflected in columns (g) and (i), respectively, by \$62.55, PepsiCo's closing stock price on December 29, 2006, the last business day of the 2006 fiscal year.
- (4) The reported awards reflect grants of performance-based restricted stock units which will vest and payout based on the achievement of annual earnings per share targets over a three-year performance period and require that the Named Executive Officer continues to provide service to PepsiCo through the end of the performance period. The number of shares displayed in column (i) reflects the maximum number of shares that would be earned if PepsiCo were to meet or exceed its pre-established three-year earnings targets. If PepsiCo were to perform below the pre-established earnings targets, the number of shares would be reduced. For additional details please see the "Performance-Based Restricted Stock Units" section of the Compensation Discussion and Analysis on page 19 of this Proxy Statement and the 2006 Grants of Plan-Based Awards table on page 26 of this Proxy Statement.
- (5) As of December 29, 2006, based on PepsiCo's closing stock price of \$62.55, Mr. Reinemund's vested stock options had an intrinsic value of \$97.9 million. His unvested options and restricted stock units had an intrinsic value of \$40.4 million, of which \$22.2 million would have vested if Mr. Reinemund were to have retired at year-end 2006.
- (6) As of December 29, 2006, based on PepsiCo's closing stock price of \$62.55, Ms. Nooyi's vested stock options had an intrinsic value of \$26.1 million. Her unvested options and restricted stock units had an intrinsic value of \$19.1 million, of which none would have vested if she were to have terminated at year-end 2006 due to the fact that Ms. Nooyi was not retirement eligible at that time.
- (7) As of December 29, 2006, based on PepsiCo's closing stock price of \$62.55, Mr. Goodman's vested stock options had an intrinsic value of \$3.8 million. His unvested options and restricted stock units had an intrinsic value of \$3.6 million of which \$1.9 million would have vested if Mr. Goodman were to have retired at year-end 2006.
- (8) As of December 29, 2006, based on PepsiCo's closing stock price of \$62.55, Mr. White's vested stock options had an intrinsic value of \$23.2 million. His unvested options and restricted stock units had an intrinsic value of \$20.4 million, of which none would have vested if he were to have terminated at year-end 2006 due to the fact that Mr. White was not retirement eligible at that time.
- (9) As of December 29, 2006, based on PepsiCo's closing stock price of \$62.55, Mr. Compton's vested stock options had an intrinsic value of \$16.0 million. His unvested options and restricted stock units had an intrinsic value of \$18.3 million, of which none would have vested if he were to have terminated at year-end 2006 due to the fact that Mr. Compton was not retirement eligible at that time.
- (10) As of December 29, 2006, based on PepsiCo's closing stock price of \$62.55, Ms. Hudson's vested stock options had an intrinsic value of \$10.2 million. Her unvested options and restricted stock units had an intrinsic value of \$17.3 million of which none would have vested if she were to have terminated at year-end 2006 due to the fact that Ms. Hudson was not retirement eligible at that time.

2006 OPTION EXERCISES AND STOCK VESTED

Name (a)	Options (1)		RSUs	
	Number of Shares Acquired on Exercise(#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting(#) (d)	Value Realized on Vesting(\$) (e)
Steven S Reinemund	196,000	7,608,206	0	0
Indra K. Nooyi	0	0	0	0
Richard A. Goodman	0	0	0	0
Michael D. White	56,906	1,536,699	0	0
John C. Compton	677	17,193	0	0
Dawn Hudson	126,420	3,084,271	0	0

(1) All stock option exercises during 2006 were executed in a manner consistent with our Exercise and Hold Policy, which is described in the "Additional Features of our Executive Compensation Programs" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.

2006 PENSION BENEFITS

Name (a)	Plan Name (b)	Number of Years Credited Service(#) (c)	Present Value of Accumulated Benefit(\$) (d)	Payments During Last Fiscal Year(\$) (e)
Steven S Reinemund	PepsiCo Salaried Employees Retirement Plan	22	837,536	0
	PepsiCo Pension Equalization Plan		17,915,137	0
Indra K. Nooyi	PepsiCo Salaried Employees Retirement Plan	13	299,530	0
	PepsiCo Pension Equalization Plan		3,291,284	0
Richard A. Goodman	PepsiCo Salaried Employees Retirement Plan	13	598,863	0
	PepsiCo Pension Equalization Plan		1,462,610	0
Michael D. White	PepsiCo Salaried Employees Retirement Plan	17	489,370	0
	PepsiCo Pension Equalization Plan		4,196,939	0
John C. Compton	PepsiCo Salaried Employees Retirement Plan	24	311,695	0
	PepsiCo Pension Equalization Plan		1,495,815	0
Dawn Hudson	PepsiCo Salaried Employees Retirement Plan	10	215,752	0
	PepsiCo Pension Equalization Plan		1,257,061	0

The Named Executive Officers participate in two pension plans: the Salaried Employees Retirement Plan ("Salaried Plan"), which is qualified under the Internal Revenue Code, and the Pension Equalization Plan ("PEP"), which is an unfunded, non-tax-qualified restoration plan. The Salaried Plan provides retirement benefits to essentially all salaried employees of the Company. The PEP restores benefits that may not be paid from the Salaried Plan due to limitations imposed by the Internal Revenue Code on qualified plan compensation or benefits. PEP benefits are payable to any salaried employee whose benefits are affected by these limits.

Both the Salaried Plan and the PEP have the same requirements for participation, benefits eligibility and vesting at five years of service. Benefits are determined using the same formula in both plans. Named Executive Officers do not receive any additional service or other enhancements in determining the form, timing or amount of their benefits.

Normal retirement benefits are payable at age 65 with five years of service. Unreduced early retirement benefits are payable as early as age 62 with 10 years of service. Reduced early retirement benefits are payable as early as age 55 with 10 years of service and are determined by reducing the normal retirement benefit by 4% for each year prior to age 62. Currently, Steve Reinemund and Richard Goodman have met the eligibility requirements for early retirement.

Pension plan benefits are payable as a monthly single life annuity beginning at a Named Executive Officer's normal retirement date and are determined by the following formula:

- 3% for each year of service up to 10 years, plus 1% for each year of service in excess of 10, multiplied by the executive's highest consecutive five-year average monthly earnings;
- reduced by 0.43% of the executive's highest consecutive five-year average monthly earnings up to his or her monthly Social Security Covered Compensation, multiplied by the executive's years of service up to 35.

Pensionable earnings include base salary and annual incentive awards. Awards of stock options, restricted stock units and performance-based long-term cash are not considered when determining pension benefits.

The present value of the accumulated retirement benefits reported in column (d) of the 2006 Pension Benefits table represents the accumulated benefit obligation for benefits earned to date, based on age, service and earnings through the measurement date of September 2006. These amounts have been calculated using actuarial methods and assumptions (as shown below) in the fiscal year-end valuation under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* with the assumption, required by SEC disclosure rules, that each Named Executive Officer remains in service until retiring at the earliest date when unreduced retirement benefits are available (i.e., age 62):

- Discount rate of 5.8%; and
- Benefits will be converted to lump sums based on the following interest rates in effect at retirement: 4.9% in 2006, grading to 5.5% in 2010.

2006 NON-QUALIFIED DEFERRED COMPENSATION (1)

Name (a)	Executive Contributions in Last Fiscal Year(\$) (b)	Registrant Contributions in Last Fiscal Year(\$) (c)	Aggregate Earnings in Last Fiscal Year(\$) (d)	Aggregate Withdrawals/ Distributions(\$) (e)	Aggregate Balance at Last Fiscal Year End (\$)(2) (f)
Steven S Reinemund (3)	0	0	2,769,096	0	37,916,705
Indra K. Nooyi (4)	0	0	713,746	0	9,763,848
Richard A. Goodman (5)	0	0	98,179	0	1,337,124
Michael D. White	0	0	0	0	0
John C. Compton (6)	573,170	0	185,337	0	2,325,187
Dawn Hudson	0	0	0	0	0

- (1) For a description of the material terms of PepsiCo's executive deferral programs, refer to the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.
- (2) Deferral balances of Named Executive Officers were invested in the following funds in 2006 which earned the following rates of return: (i) PepsiCo Common Stock Fund: 7.0%, (ii) Prime Rate Fund: 7.9%, (iii) Fidelity Equity Income Fund: 19.8%, (iv) Vanguard Large Cap Equity Index Fund: 15.3% and (v) Security Plus: 5.1%.
- (3) Mr. Reinemund's balance includes deferrals from base salary, annual incentive awards, one stock option exercise, performance-based long-term cash awards and investment earnings on the deferral balance. In 2006, his deferral balance was invested in the PepsiCo Common Stock Fund and the Prime Rate Fund. The balance includes \$396,429 of earnings included in column (h) of the 2006 Summary Compensation Table. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.
- (4) Ms. Nooyi's balance includes deferrals from base salary, annual incentive awards, one stock option exercise and investment earnings on the deferral balance. In 2006, her deferral balance was invested in the PepsiCo Common Stock Fund and the Prime Rate Fund. The balance includes \$114,091 of earnings included in column (h) of the 2006 Summary Compensation Table. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.

- (5) Mr. Goodman's balance includes deferrals from annual incentive awards and investment earnings on the deferral balance. In 2006, Mr. Goodman's deferral balance was invested in the Prime Rate Fund. The balance includes \$23,256 of earnings included in column (h) of the 2006 Summary Compensation Table. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement.
- (6) Mr. Compton's balance includes deferrals from base salary, annual incentive awards, performance-based long-term cash awards and investment earnings on the deferral balance. In 2006, Mr. Compton's deferral balance was invested in the PepsiCo Common Stock Fund, the Prime Rate Fund, the Fidelity Equity Income Fund and the Vanguard Large Cap Equity Index Fund. The balance includes \$2,110 of earnings included in column (h) of the 2006 Summary Compensation Table. This amount was deemed to be "above-market" earnings as described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 21 of this Proxy Statement. Mr. Compton's 2006 contributions represent a portion of his 2005 annual incentive award that he chose to defer rather than receive in March 2006. This amount was previously disclosed as 2005 compensation under the "Bonus" column of the Summary Compensation Table in PepsiCo's 2006 proxy statement.

POTENTIAL PAYMENTS ON TERMINATION OR CHANGE IN CONTROL

Termination of Employment/Retirement

None of our Named Executive Officers has any arrangement that provides for severance payments or benefits. In the event a Named Executive Officer retires, terminates or resigns from PepsiCo for any reason, he or she would be entitled to:

- the long-term incentive awards disclosed in footnotes (5) through (10) to the 2006 Outstanding Equity Awards at Fiscal Year End table on page 27 of this Proxy Statement and footnote (6)(iii) to the 2006 Summary Compensation Table on page 23 of this Proxy Statement;
- the pension value disclosed in column (d) of the 2006 Pension Benefits table on page 30 of this Proxy Statement; and
- the non-qualified deferred compensation balance disclosed in column (f) of the 2006 Non-Qualified Deferred Compensation table on page 31 of this Proxy Statement.

PepsiCo's non-competition, non-solicitation and non-disclosure policies that apply to the Named Executive Officers are provided under our clawback policy which is described on page 22 of this Proxy Statement of the Compensation Discussion and Analysis.

Change in Control

An overview of the material terms of PepsiCo's change-in-control program is provided in the "Change-in-Control Provisions" section of the Compensation Discussion and Analysis on page 20 of this Proxy Statement.

If the Named Executive Officers had been terminated as of December 29, 2006 (the last business day of the 2006 fiscal year) following a change in control of PepsiCo, the value of their options (calculated based on the Black-Scholes formula using assumptions for the calculation of the FAS 123(R) compensation expense as provided in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 which is available at www.pepsico.com), restricted stock units and accrued dividends that would vest at that time are shown below (calculated based on a PepsiCo closing stock price of \$62.55). These values are in addition to what the Named Executive Officer would otherwise be entitled to receive if he or she terminated employment or retired (as described in the Termination of Employment/Retirement section above).

- Mr. Reinemund: \$27.1 million
- Ms. Nooyi: \$29.3 million
- Mr. Goodman: \$ 1.7 million
- Mr. White: \$27.9 million
- Mr. Compton: \$23.7 million
- Ms. Hudson: \$23.2 million

2006 DIRECTOR COMPENSATION (1)

Name (a)	Fees Earned or Paid in Cash \$(2) (b)	Stock Awards \$(4) (c)	Option Awards \$(4) (d)	Non-Equity Incentive Plan Compensation\$((e)	Change in Pension Value and Non- Qualified Deferred Compensation Earnings\$((f)	All Other Compensation\$((g)	Total\$((h)
John F. Akers	120,000	110,887	68,810	0	0	4,645 (5)	304,342
Robert E. Allen	120,000	85,879	98,900	0	0	4,645 (5)	309,424
Dina Dublon	100,000	66,647	75,939	0	0	0	242,586
Victor J. Dzau	100,000	72,907	68,810	0	0	0	241,717
Ray L. Hunt	128,333 (3)	66,647	124,228	0	0	0	319,208
Alberto Ibarguen	100,000	66,647	68,810	0	0	0	235,457
Arthur C. Martinez	100,000	91,655	94,138	0	0	0	285,793
Sharon P. Rockefeller	100,000	85,879	98,900	0	0	4,645 (5)	289,424
James J. Schiro	128,333 (3)	66,647	124,228	0	0	0	319,208
Franklin A. Thomas	100,000	98,383	83,855	0	0	4,645 (5)	286,883
Cynthia M. Trudell	100,000	110,887	68,810	0	0	4,645 (5)	284,342
Daniel Vasella	100,000	91,655	94,138	0	0	0	285,793

- (1) All independent, non-employee directors receive an annual retainer of \$100,000 and an annual equity award on October 1 of each year. Committee chairs and the Presiding Director who does not serve as a committee chair receive an additional \$20,000 annual retainer for the supplemental duties associated with their additional responsibilities. Directors may elect to receive their retainer in cash or defer their retainer into PepsiCo Common Stock equivalents, which are payable in cash at the end of the deferral period. Directors are reimbursed for expenses incurred to attend Board and Committee meetings. Directors do not receive any meeting fees, nor do they have a retirement plan or receive any benefits such as life or medical insurance. Directors do receive business travel and accident coverage and are eligible for PepsiCo Foundation matching of charitable contributions. Directors who are employees of the Company receive no additional compensation for serving as directors.

The grant value of the 2006 annual equity award was approximately \$100,000, with the grant split equally between stock and stock options. The number of shares of PepsiCo Common Stock awarded under the grant is determined by dividing \$50,000 by the fair market value of PepsiCo Common Stock on the date of grant. Stock awards are immediately vested at grant, but the shares received are subject to a holding period requirement. These shares must be held beneficially by a director until he/she leaves the Board, except for withholding of shares to pay taxes related to the grant. The number of stock options awarded is determined by multiplying the number of shares of PepsiCo Common stock awarded by four. Stock options have an exercise price equal to the fair market value of PepsiCo Common Stock on the date of grant, with fair market value defined as the average of the high and low stock price rounded up to the nearest quarter. Stock options normally vest after three years and vest earlier in the case of the director's death, disability or retirement. Stock options do not accrue dividends or dividend equivalents. All newly appointed non-employee directors receive a one-time grant of 1,000 shares of PepsiCo Common Stock when they join the Board.

- (2) In 2006, the following directors elected to defer cash compensation into the Director's Fee Deferral Plan: V. Dzau; A. Ibarguen; A. Martinez, C. Trudell and D. Vasella deferred their \$100,000 retainer into 1,554 PepsiCo Common Stock equivalents; and R. Allen, R. Hunt and J. Schiro deferred their \$120,000 retainer into 1,865 PepsiCo Common Stock equivalents.
- (3) In May 2006, Ray Hunt assumed the Chair of the Nominating and Corporate Governance Committee and James Schiro assumed the Chair of the Audit Committee. As a result of this change, Mr. Hunt and Mr. Schiro received a pro-rated payment of \$8,333 for providing service as a committee chair between May and September 2006.
- (4) Stock Awards (column (c)) represent stock and restricted stock unit grants, and Option Awards (column (d)) represent stock option grants for which, in each case, PepsiCo recorded 2006 compensation

expense. Under the required FAS 123(R) methodology, the compensation expense reflected in columns (c) and (d) is for grants made in 2006 and grants made in prior years which continued to be expensed in 2006. The assumptions used in calculating the FAS 123(R) compensation expense are provided in the Company's Annual Report on Form 10-K for the applicable fiscal years which are available at www.pepsico.com.

The 2006 annual equity award, granted on October 1, 2006, provided each non-employee director 766 shares of PepsiCo Common Stock with a full FAS 123(R) grant date fair value of \$49,982 and 3,064 stock options with an exercise price of \$65.25 and a full FAS 123(R) grant date fair value of \$49,698. The amounts in columns (c) and (d) include the full FAS 123(R) grant date fair value of the 2006 award and the expense for awards granted in prior years which continue to be expensed under the required FAS 123(R) methodology.

The number of vested and unvested stock options and unvested RSUs held by each non-employee directors at fiscal year-end 2006 is shown below:

<u>Name</u>	<u>Number of Vested Options</u>	<u>Number of Unvested Options</u>	<u>Number of Unvested RSUs</u>
J. Akers	59,675	6,588	2,389
R. Allen	37,014	12,618	881
D. Dublon	0	7,958	881
V. Dzau	0	6,588	1,224
R. Hunt	68,724	12,618	881
A. Ibarguen	0	6,588	881
A. Martinez	30,097	6,588	2,389
S. Rockefeller	34,869	12,618	881
J. Schiro	16,829	12,618	881
F. Thomas	39,244	9,603	1,635
C. Trudell	26,866	6,588	2,389
D. Vasella	16,869	6,588	2,389

- (5) In 2006, Mr. Akers, Mr. Allen, Ms. Rockefeller, Mr. Thomas and Ms. Trudell received \$4,645 in dividends paid on restricted stock units which accrued between October 1, 2003 and September 30, 2006 and were paid (without interest) on October 1, 2006.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of December 30, 2006 with respect to the shares of PepsiCo Common Stock that may be issued under our equity compensation plans. The table does not include information regarding the proposed 2007 Long-Term Incentive Plan (the "2007 LTIP"), which is being submitted to shareholders for approval at the 2007 Annual Meeting. If approved by shareholders, the 2007 LTIP will be the only equity compensation plan under which PepsiCo will issue new equity-based awards and the shares remaining available under the 2003 Long-Term Incentive Plan (the "2003 LTIP") will be replaced by the 65 million shares authorized under the 2007 LTIP.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)</u>
Equity compensation plans approved by security holders (1)	94,535,778 (2)	\$45.51 (6)	35,843,951 (3)
Equity compensation plans not approved by security holders (4)	39,455,027	\$42.31 (6)	—
Total (5)	133,990,805	\$44.51 (6)	35,843,951

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- (1) Includes the 2003 LTIP, the 1994 Long-Term Incentive Plan and the 1987 Incentive Plan.
 - (2) This amount includes 7,884,906 restricted stock units that, if and when vested, will be settled in shares of PepsiCo Common Stock.
 - (3) As of May 7, 2003, the shareholder-approved 2003 LTIP superseded all of our other equity compensation plans, which were terminated on May 7, 2003. The 2003 LTIP permits the award of stock options, stock appreciation rights, restricted and unrestricted shares, restricted stock units and performance shares and units. As approved by shareholders, the 2003 LTIP authorizes a number of shares for issuance equal to 70,000,000 plus the number of shares underlying awards issued under the Company's other equity compensation plans which are cancelled or expire after May 7, 2003; provided, however, that the number of shares authorized under the 2003 LTIP will not exceed 85,000,000. As described in Proxy Item 3 of this Proxy Statement, if shareholders approve the 2007 LTIP, the 2003 LTIP will be terminated and the shares that remain available for future awards under the 2003 LTIP will be cancelled.
 - (4) Includes the 1995 Stock Option Incentive Plan, the SharePower Stock Option Plan and the Director Stock Plan, each of which is described below.
 - (5) The table does not include information for equity compensation plans assumed by PepsiCo in connection with PepsiCo's merger with The Quaker Oats Company. Those plans include the Quaker Long Term Incentive Plan of 1990, the Quaker Long Term Incentive Plan of 1999 and the Quaker Stock Compensation Plan for Outside Directors (collectively, the "Quaker Plans"). As of December 30, 2006, a total of 1,643,524 shares of PepsiCo Common Stock were issuable upon the exercise of outstanding options which were granted under the Quaker Plans prior to the merger with PepsiCo. The weighted average exercise price of those options is \$23.46 per share. An additional 39,676 shares of PepsiCo Common Stock which are related to awards issued under the Quaker Plans prior to the merger have been deferred and will be issued in the future. No additional options or shares may be granted under the Quaker Plans.
 - (6) Weighted average exercise price of outstanding options only.
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1995 Stock Option Incentive Plan (the "SOIP"). The SOIP was adopted by the Board of Directors on July 27, 1995. Under the SOIP, stock options were granted to middle management employees generally based on a multiple of base salary. SOIP options were granted with an exercise price equal to the fair market value of PepsiCo Common Stock on the date of grant. SOIP options generally become exercisable at the end of three years and have a ten-year term. At year-end 2006, options covering 20,017,545 shares of PepsiCo Common Stock were outstanding under the SOIP. As of May 7, 2003 the SOIP was terminated. The SOIP is included as Exhibit 10.14 in our 2002 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 7, 2003.

SharePower Stock Option Plan (the "Share Power Plan"). The SharePower Plan was adopted by the Board of Directors on July 1, 1989. Under the SharePower Plan, options were generally granted each year to virtually all of our full-time employees based on a formula tied to annual earnings and tenure. Each year, the Board of Directors authorized the number of shares required to grant options under the SharePower formula. SharePower options were granted with an exercise price equal to the fair market value of PepsiCo Common Stock on the date of grant. SharePower options generally become exercisable after three years and have a ten-year term. At year-end 2006, options covering 18,977,353 shares of PepsiCo Common Stock were outstanding under the SharePower Plan. As of May 7, 2003, the SharePower Plan was terminated and superseded by the 2003 LTIP, from which all future SharePower awards will be made. The SharePower Plan is included as Exhibit 10.13 in our 2002 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 7, 2003.

Director Stock Plan. The Director Stock Plan was adopted by the disinterested members of the Board of Directors on July 28, 1988. Under the Director Stock Plan, stock options were granted and shares of PepsiCo Common Stock were issued to non-management directors. Options granted under the plan were immediately exercisable and have a ten-year term. As of year-end 2006, options covering 460,129 shares of PepsiCo Common Stock were outstanding under the Director Stock Plan. As of May 7, 2003, the Director Stock Plan was terminated and superseded by the 2003 LTIP, from which all future Director stock options and shares will be granted. The Director Stock Plan is included as Exhibit 4.3 in Post-Effective Amendment No. 6 to the Form S-8 related to such plan, filed with the Securities and Exchange Commission on September 4, 2002.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Securities Exchange Act of 1934 requires PepsiCo's directors and executive officers to file reports of ownership and changes in ownership of PepsiCo Common and Convertible Preferred Stock. We received written representations from each such person who did not file an annual statement with the SEC on Form 5 that no Form 5 was due. To the best of PepsiCo's knowledge, in 2006, all required forms were filed on time with the Securities and Exchange Commission except a Form 4 for John C. Compton and a Form 4 for Cynthia Trudell, each of which was not timely filed due to an administrative error.

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS (PROXY ITEM NO. 2)

The Audit Committee engaged KPMG LLP ("KPMG") as PepsiCo's independent registered public accountants for 2007, subject to ratification by shareholders. KPMG has served as PepsiCo's independent auditors since 1990.

Representatives of KPMG will be available to answer appropriate questions at the Annual Meeting and are free to make statements during the meeting.

The Board of Directors recommends that shareholders vote FOR the ratification of the appointment of KPMG as PepsiCo's independent registered public accountants for 2007.

APPROVAL OF 2007 LONG-TERM INCENTIVE PLAN

(PROXY ITEM NO. 3)

On February 2, 2007, the Board of Directors adopted the PepsiCo, Inc. 2007 Long-Term Incentive Plan (the "2007 LTIP"), subject to shareholder approval. The 2007 LTIP will replace the shareholder-approved PepsiCo, Inc. 2003 Long-Term Incentive Plan (the "2003 LTIP"). The approximately 22.46 million shares of PepsiCo Common Stock that remain available for future awards under the 2003 LTIP as of March 9, 2007 will be cancelled. Awards outstanding under the 2003 LTIP will continue to be governed by the 2003 LTIP.

We are asking shareholders to approve the 2007 LTIP at the Annual Meeting of Shareholders as it will enable PepsiCo to:

- continue to attract, retain and motivate talented employees who are critical to the Company's long-term success and growth, and
- maintain strict corporate governance practices in granting equity to employees, including the judicious use of equity awards.

Approval of the 2007 LTIP will facilitate the attraction, retention and motivation of talented employees critical to PepsiCo's success.

PepsiCo's compensation philosophy is based on the principle that the Company will achieve its best results if its employees act and are rewarded as business owners. The Board believes that stock ownership and stock-based incentive awards are the best way to align the interests of the executive officers, employees and directors with those of PepsiCo's shareholders. Approval of the 2007 LTIP will allow PepsiCo to use equity compensation to attract, retain and motivate a large group of talented and diverse domestic and international employees who are critical to the Company's long-term success and growth.

PepsiCo has a long history of linking pay to our long-term stock performance for all employees, not just executives. This is best demonstrated by the fact that, since 1989, we have provided an annual grant of stock options to virtually all full-time employees under our broad-based stock option program, SharePower. We remain committed to our broad-based option program, with 20 million shares of PepsiCo Common Stock requested under the 2007 LTIP to be exclusively available for issuance in connection with SharePower.

Approval of the 2007 LTIP allows PepsiCo to maintain strict corporate governance practices, including the judicious use of equity awards.

The 2007 LTIP contains a number of provisions that the Board believes are consistent with the interests of shareholders and sound corporate governance practices:

- **Limitation on Shares Issued.** 65 million total shares of PepsiCo Common Stock will be authorized for issuance, and no more than 20 million shares may be issued in connection with awards other than stock options or stock appreciation rights.
- **No Discounted Stock Options.** All stock options must have an exercise price equal to or greater than the fair market value of PepsiCo Common Stock on the date of grant.
- **No Annual "Evergreen" Provision.** The 2007 LTIP authorizes a fixed number of shares of PepsiCo Common Stock, thereby requiring shareholder approval of any additional authorization of shares.
- **No Stock Option Repricings.** The 2007 LTIP prohibits the repricing of stock options without the approval of shareholders. This provision applies to both direct repricings

(lowering the exercise price of a stock option) and indirect repricings (canceling an outstanding stock option and granting a replacement stock option with a lower exercise price).

- **Double-Trigger Change-in-Control Requirement.** In connection with a change in control of PepsiCo, a participant's equity awards will vest only if the participant is terminated without cause or resigns for good reason within two years following the change in control or if the acquirer fails to assume the awards.
- **Minimum Three-Year Vesting.** Restricted shares and restricted stock units (RSUs) granted to employees typically require a minimum three years of employment to vest. No more than 150,000 shares of PepsiCo Common Stock (less than 1% of the share request) are reserved for the rare circumstances in which less than a three-year vesting period may be warranted to facilitate the recruitment of key leadership talent; provided that in no case will the vesting period for any such awards be less than one year.
- **Compensation Clawback.** If an employee engages in gross misconduct or violates PepsiCo's Worldwide Code of Conduct (available on our website at www.pepsico.com under Corporate Governance in the "Investors" section), the 2007 LTIP permits PepsiCo to cancel the employee's outstanding equity portfolio. In addition, PepsiCo's equity award agreements under the 2003 LTIP permit the clawback of all gains realized from option exercises and RSUs paid within 12-months preceding any violation of PepsiCo's Worldwide Code of Conduct or violation of our non-compete, non-solicitation or non-disclosure policies.
- **Responsible Share Counting.** The 2007 LTIP prohibits "net share counting," meaning that any shares of PepsiCo Common Stock tendered or withheld to pay taxes or an option's exercise price are not available for re-issuance. Likewise, upon exercise of a stock-settled SAR, none of the shares associated with the SAR grant are available for re-issuance.
- **Independent Committee.** The 2007 LTIP will be administered by the Compensation Committee of the PepsiCo Board of Directors, except as it relates to non-employee director awards which the full Board administers. All of the members of the Compensation Committee qualify as "independent" under the New York Stock Exchange rules.
- **Judicious Use of Equity.** PepsiCo redesigned its executive long-term incentive program in 2003 and has judiciously used equity to significantly reduce total equity program Overhang and Run Rates as illustrated in the table below.

PepsiCo Overhang and Run Rate

	2003	2004	2005	2006
Overhang (1)	15.7%	14.1%	12.4%	10.4%
Run Rate (2)	2.4%	1.0%	0.9%	0.9%

(1) Overhang represents all authorized shares under the 2003 LTIP plus outstanding options and restricted stock units as a percent of basic common shares outstanding at the end of that fiscal year.

(2) Run rate represents all option awards and restricted stock units granted in a fiscal year divided by the number of basic common shares outstanding at the end of that fiscal year.

Upon approval of the 2007 LTIP, PepsiCo's estimated overhang will be 12.3%, and, excluding SharePower, our broad-based option program, estimated overhang will be 9.0%. We anticipate that PepsiCo's annual run rate will continue to approximate 0.9% with a reduction in overhang to an estimated 11.5% by year-end 2007 and an estimated 10.0% by year-end 2008. These estimates of future run rate and overhang are based on the continuation of current grant levels and exercise patterns.

Summary of the 2007 LTIP

The principal features of the 2007 LTIP plan document are summarized below. This summary is qualified by reference to the complete text of the 2007 LTIP set forth in Exhibit B to this Proxy Statement.

Plan Administration. The Compensation Committee administers all aspects of the 2007 LTIP, except for awards made to non-employee directors. The amount and terms of awards to non-employee directors are set forth in the 2007 LTIP, and such awards are administered by the full Board. Each member of the Compensation Committee qualifies as a "non-employee director," as defined under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and an "outside director," within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Each member of the Compensation Committee also meets the director independence criteria under the New York Stock Exchange rules.

The Committee has the authority to, among other things:

- construe and interpret the 2007 LTIP,
- make rules and regulations relating to the administration of the 2007 LTIP,
- select participants and make awards, and
- establish the terms and conditions of awards.

The Committee may delegate its authority to employees of the Company including the authority to grant awards to employees who are not officers subject to Section 16 of the Securities Exchange Act of 1934.

Awards. The 2007 LTIP provides for the grant of non-qualified stock options, incentive stock options that qualify under Section 422 of the Code, stock appreciation rights (SARs), restricted shares, restricted stock units (RSUs), performance shares, performance units and stock awards, each as defined in the 2007 LTIP.

Eligibility. Any officer, employee, consultant or advisor of PepsiCo or any of its subsidiaries or affiliated businesses is eligible for any type of award provided for under the 2007 LTIP except that employees are not eligible for unrestricted stock awards. As of year-end 2006, there were approximately 168,000 worldwide employees of the Company. The selection of participants and the nature and size of grants and awards are within the discretion of the Committee. In addition, PepsiCo's non-employee directors are eligible to receive awards upon their initial appointment to the Board and annual awards under the 2007 LTIP.

Authorized Shares. The 2007 LTIP authorizes the issuance of 65 million shares of PepsiCo Common Stock, plus any shares of PepsiCo Common Stock underlying awards previously granted under the 2003 LTIP and prior plans that are cancelled or expired without the issuance of shares after the effective date of the 2007 LTIP. Twenty million shares will be exclusively available for broad-based grants under the SharePower program. In addition, no more than 20 million shares will be available for awards other than stock options and stock appreciation rights, and no more than 45 million shares will be available for the grant of incentive stock options.

If any award is forfeited or the award otherwise terminates without the issuance of shares of PepsiCo Common Stock, the shares associated with the award will again be available for future grants. However, shares withheld by or delivered to PepsiCo to satisfy the exercise or conversion price of an award or in payment of taxes will not again be available for future grants, and, upon the exercise of a stock-settled SAR, the number of shares subject to the SAR will not again be available for future grants regardless of the actual number of shares of PepsiCo Common Stock used to settle such SAR. In addition, awards that are settled in cash rather than shares of PepsiCo Common Stock and awards that may be granted in connection with the assumption or substitution of outstanding grants from an acquired or merged company do not count towards the total share limit.

The maximum number of shares of PepsiCo Common Stock subject to stock options and stock appreciation rights that can be granted to any individual during a calendar year cannot exceed 2 million. The maximum amount of awards other than stock options and stock appreciation rights that can be granted to any individual, in the aggregate, during a calendar year cannot exceed \$15 million (converted into a number of shares of PepsiCo Common Stock based on the fair market value on the date of grant).

The shares of PepsiCo Common Stock issued may consist of authorized but unissued shares or repurchased shares.

Adjustments. In the event of a corporate transaction that affects PepsiCo Common Stock, the Committee will make adjustments to the number of authorized shares and the individual limitations set forth above and to the outstanding awards as it deems appropriate and equitable.

Options. A stock option permits the participant to purchase shares of PepsiCo Common Stock at a specified price. Options may be granted alone or together with stock appreciation rights. A stock option may be granted in the form of a non-qualified stock option or an incentive stock option. The price at which a share may be purchased under an option (the exercise price) may not be less than 100% of the fair market value (the average of the high and low market prices) of a share of PepsiCo Common Stock on the date the option is granted. The average of the high and low market prices of a share of PepsiCo Common Stock on March 9, 2007 was \$62.89 per share. Except in the case of an adjustment related to a corporate transaction, the exercise price of a stock option may not be decreased after the date of grant and no outstanding option may be surrendered as consideration for the grant of a new option with a lower exercise price without shareholder approval. No dividends or dividend equivalents will be paid on stock options.

The Committee may establish the term of each option, but no option will be exercisable after 10 years from the grant date; provided, however, that awards of non-qualified stock options or stock appreciation rights covering up to 5 million shares, in the aggregate, may be issued with a term of up to 15 years.

The amount of incentive stock options that become exercisable for the first time in a particular year by an individual participant cannot exceed a face value of \$100,000 or such other amount as may subsequently be specified by the Code, determined using the fair market value of the shares on the date of grant.

Stock Appreciation Rights (SARs). A stock appreciation right entitles the participant to receive a payment in shares of PepsiCo Common Stock and/or cash equal to the excess of the fair market value of PepsiCo Common Stock on the date the SAR is exercised over the SAR exercise price. SARs may be granted either alone or in tandem with stock options. The exercise price of an SAR must be equal to or greater than 100% of the fair market value of PepsiCo Common Stock on the date of grant. The Committee may establish the term of each SAR, but no SAR will be exercisable after 10 years from the grant date; provided, however, that awards of non-qualified stock options or stock appreciation rights covering up to 5 million shares, in the aggregate, may be issued with a term of up to 15 years. No dividends or dividend equivalents will be paid on SARs.

Restricted Shares and Restricted Stock Units (RSUs). A restricted share is a share of PepsiCo Common Stock that is issued to a participant subject to vesting requirements. An RSU is the right granted to a participant to receive a share of PepsiCo Common Stock and/or a cash payment based on the value of a share of PepsiCo Common Stock subject to vesting requirements. The restrictions on such awards are determined by the Committee, and may include time-based or performance-based restrictions. Any time-based restriction generally must be for a minimum of three years of employment except that up to 150,000 restricted shares or RSUs, in the aggregate, may be issued with a restriction period less than three years but in no event less than one year. The Committee may also condition the vesting of any restricted share or RSU grant on the achievement of one or more performance goals specified below under "Performance Awards and Performance Goals." RSUs may be settled in cash, shares of PepsiCo Common Stock or a combination thereof, as

determined by the Committee. Holders of RSUs will have no ownership interest in the shares of PepsiCo Common Stock to which such RSUs relate unless and until payment with respect to such RSUs is actually made in shares of PepsiCo Common Stock. Except as otherwise determined by the Committee, participants who hold restricted shares will have voting rights and dividends accrued during the restriction period will be distributed (without interest) only if and when the restricted shares vest. Except as otherwise determined by the Committee, RSUs will accrue dividend equivalents during the restriction period that will be distributed (without interest) only if and when the RSUs vest.

Performance Awards and Performance Goals. Performance awards are awards conditioned on the achievement of performance goals set for a performance period. The Committee determines the performance goal and the length of the performance period. The performance goal will be based on one or more of the following performance measures: stock price, market share, sales revenue, cash flow, sales volume, earnings per share, return on equity, return on assets, return on sales, return on invested capital, economic value added, net earnings, total shareholder return, gross margin, and/or costs. The performance measures may be described in terms of objectives that are related to the individual participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit of the Company and may be expressed in absolute terms or relative to the performance of other entities. Notwithstanding the attainment of any performance goal, the Committee has the discretion to reduce any award payment. Performance awards may be paid in cash, shares of PepsiCo Common Stock, or a combination thereof.

Stock Awards. Stock awards consist of vested shares of PepsiCo Common Stock that are not subject to a risk of forfeiture. Stock awards may only be granted to eligible participants who are consultants or advisors (i.e., non-employees) and may be granted to non-employee directors as part of the initial and annual grants, as described below.

Non-Employee Director Awards. The amount and terms of awards to non-employee directors are set forth in the 2007 LTIP, and such awards are administered by the Board of Directors. Employee directors are not eligible to receive these awards and receive no additional pay for serving as directors. Newly appointed non-employee directors currently receive a one-time initial grant of 1,000 shares of PepsiCo Common Stock. In addition, non-employee directors currently receive an annual grant consisting of (i) a stock award equal to the number of whole shares of PepsiCo Common Stock determined by dividing \$50,000 by the fair market value of a share of PepsiCo Common Stock (rounded up to the nearest quarter) on the grant date and (ii) a stock option award equal to the number of options determined by multiplying by four the number of shares subject to the annual grant.

Change in Control. In the event of a change in control of PepsiCo, all outstanding awards under the 2007 LTIP that are assumed or replaced with equivalent awards by the successor corporation will remain outstanding and continue to be governed by their terms. If, within two years following a change in control, a participant is terminated without cause or the participant resigns for good reason, then all such assumed or replaced awards held by the participant will immediately vest, the RSUs will become immediately payable and the options and SARs will remain outstanding for their full term. If the surviving corporation fails to assume the outstanding awards under the 2007 LTIP or substitute equivalent awards, then all such outstanding awards will vest and all restrictions will lapse upon the change in control and the Board may provide for the cancellation of such awards in exchange for a payment to the participants that is at least equal to the excess (if any) of the consideration that would be received in the change in control by the holders of PepsiCo Common Stock over the exercise or purchase price (if any) for such awards. "Change in control," "cause" and "good reason" are defined in Section 11(b) of the 2007 LTIP.

Effective Date, Term, Amendment and Termination. The 2007 LTIP will become effective as of the date of shareholder approval and will remain in effect until the tenth anniversary of such date. The Board or Committee may terminate or amend the 2007 LTIP at any time, but no such amendment or termination may adversely affect awards granted prior to such termination or amendment except to the extent necessary or appropriate to comply with applicable law or stock exchange rules and regulations. Unless PepsiCo's shareholders shall have first approved the amendment, no amendment

may (i) increase the number of authorized shares or the maximum individual award limitations, (ii) extend the maximum period during which awards may be granted, (iii) add to the types of awards that can be made, (iv) change the performance measures pursuant to which performance awards are earned, (v) modify the requirements as to eligibility for participation, (vi) decrease the exercise price of any option or SAR to less than the fair market value on the grant date, or (vii) amend the 2007 LTIP in a manner that requires shareholder approval pursuant to the 2007 LTIP, applicable law or the rules of the New York Stock Exchange.

Limitations on Transfer. Awards granted under the 2007 LTIP are nontransferable other than, upon participant's death, by will or the laws of descent and distribution unless otherwise determined by the Committee. The Committee has the discretion to permit the transfer of an award only to a participant's immediate family member without the payment of any consideration.

Other Provisions. The Committee may determine that an award, whether made in cash, shares of PepsiCo Common Stock or a combination thereof (except gains from stock options or SARs), may be deferred and may approve deferral elections made by participants in compliance with Section 409A of the Code. No loans from PepsiCo to participants will be permitted under the 2007 LTIP.

U.S. Federal Income Tax Consequences

The following is a general summary of certain U.S. federal income tax consequences of awards made under the 2007 LTIP, based upon the laws in effect on the date hereof, and is intended for the information of shareholders considering how to vote with respect to the proposal. It is not intended as tax guidance to participants in the 2007 LTIP. The discussion does not take into account a number of considerations which may apply in light of the circumstances of a particular participant under the 2007 LTIP. The income tax consequences under applicable foreign, state and local tax laws may not be the same as under U.S. federal income tax laws.

Non-Qualified Stock Options (NQSOs) and Stock Appreciation Rights (SARs). A participant will not recognize taxable income at the time of grant of a NQSO or SAR, and PepsiCo will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee), upon exercise of a NQSO, equal to the excess of the fair market value of the shares of PepsiCo Common Stock purchased over their exercise price and, upon exercise of an SAR, equal to the fair market value of any shares of PepsiCo Common Stock delivered or cash paid. PepsiCo will generally be entitled to a corresponding U.S. federal income tax deduction at the same time the participant recognizes ordinary income.

Incentive Stock Options (ISOs). A participant will not recognize taxable income at the time of grant of an ISO or (except for purposes of the alternative minimum tax) upon exercise of an ISO. If the shares of PepsiCo Common Stock acquired by exercise of an ISO are held for the longer of two years from the date the option was granted or one year from the date the shares were transferred, any gain or loss arising from a subsequent disposition of such shares will be taxed as long-term capital gain or loss, and PepsiCo will not be entitled to any deduction. If, however, such shares are disposed of within two years from the date the option was granted or one year from the date the shares were transferred, then in the year of such disposition the participant will recognize compensation taxable as ordinary income equal to the excess of the lesser of the amount realized upon such disposition and the fair market value of such shares on the date of exercise over the exercise price, and PepsiCo generally will be entitled to a corresponding U.S. federal income tax deduction.

Other Awards. For other awards authorized under the 2007 LTIP, a participant will generally recognize compensation taxable as ordinary income (i) at the time restrictions on restricted shares lapse in an amount equal to the excess of the fair market value of the shares of PepsiCo Common Stock at such time over the amount, if any, paid for the shares; (ii) at the time of settlement of restricted stock units in an amount equal to the fair market value of any shares of PepsiCo Common Stock delivered or cash paid by PepsiCo and (iii) at the time of grant of a nonforfeitable stock award in

an amount equal to the fair market value of the shares of PepsiCo Common Stock at such time. PepsiCo will generally be entitled to a corresponding U.S. federal income tax deduction at the same time the participant recognizes ordinary income, except to the extent the deduction limits of Section 162(m) of the Code apply.

Section 162(m) Limit. The 2007 LTIP is designed to enable PepsiCo to provide certain forms of performance-based compensation to executive officers that will meet the requirements for tax deductibility under Section 162(m) of the Code. Section 162(m) provides that PepsiCo may not deduct compensation paid to any one of certain executive officers in excess of \$1 million in any one year if such compensation is not performance-based or does not comply with other exceptions. It is anticipated that all stock options, SARs and performance awards, including performance-based restricted stock and performance-based RSUs paid in accordance with the 2007 LTIP, will be deductible as performance-based compensation and not subject to the \$1 million limitation. Performance awards qualify as performance-based compensation if they are conditioned on the achievement of one or more of the performance measures described under "Performance Awards and Performance Goals" above and satisfy certain other requirements of Section 162(m) of the Code. To satisfy the requirements that apply to performance-based compensation, those performance measures, the 2007 LTIP's eligibility terms, and the share and dollar maximums on individual participant awards (specified above under "Authorized Shares") must be approved by PepsiCo's shareholders, and approval of the 2007 LTIP will also constitute approval of these elements of the 2007 LTIP.

Section 409A. It is intended that awards granted under the 2007 LTIP will satisfy the requirements of Section 409A of the Code and any regulations or guidance that may be adopted thereunder from time to time, including any transition relief available under applicable guidance related to Section 409A of the Code.

New Plan Benefits

The number of options and other awards, if any, that an individual may receive under the 2007 LTIP is at the discretion of the Committee and therefore cannot be determined in advance.

Approval

Under North Carolina law and the Company's By-laws, the affirmative vote of a majority of the votes cast (in person or by proxy) is required for approval of the 2007 LTIP. For the 2007 LTIP to be approved under the rules of the New York Stock Exchange: (i) more than 50% in interest of all securities entitled to vote on the proposal must cast a vote on the proposal, and (ii) a majority of the votes cast must vote "FOR" the proposal. Under New York Stock Exchange rules, brokerage firms that have not received voting instructions from their clients on this proposal may not vote on it. Under Section 162(m) of the Code, the material terms of a performance goal are approved by shareholders if, in a separate vote, a majority of the votes cast on the issue are in favor of approval.

<p>The Board of Directors recommends that shareholders vote FOR the PepsiCo, Inc. 2007 Long-Term Incentive Plan.</p>

SHAREHOLDER PROPOSALS

If proposals are submitted by more than one shareholder, PepsiCo will only list the primary filer's name, address and number of shares held. We will provide information about co-filers promptly if we receive a request for the information.

CHARITABLE CONTRIBUTIONS (PROXY ITEM NO. 4)

The National Legal and Policy Center, 107 Park Washington Court, Falls Church, Virginia 22046, who owns 54 shares of PepsiCo Common Stock, has submitted the following resolution for the reasons stated:

"RESOLVED: The shareholders request that PepsiCo provide a report updated semi-annually, omitting proprietary information and at reasonable cost, disclosing the Company's:

1. Policies and procedures for charitable contributions (both direct and indirect) made with corporate assets;
2. Monetary and non-monetary contributions made to non-profit organizations operating under Section 501(c)(3) and 501(c)(4) of the Internal Revenue Code, and any other public or private charitable organizations;
3. Rationale for each of the charitable contributions;

To the extent reasonable and permissible, the report may include the type of information requested above for the PepsiCo Foundation.

This report may be posted on the company's website to reduce costs to shareholders.

Supporting Statement:

PepsiCo's assets belong to its shareholders. The expenditure or distribution of corporate assets, including charitable contributions, should be consistent with shareholder interests. Accordingly, the Company's rationale for charitable contributions should be disclosed to shareholders.

Company executives exercise wide discretion over the use of corporate assets for charitable purposes. Absent a system of transparency and accountability for charitable contributions, Company executives may use Company assets for objectives that are not shared by and may be inimical to the interests of the Company and its shareholders.

In 2006, the Company was criticized by independent observers for opposing our resolution for charitable contribution disclosure that was considered at last year's annual meeting.

Thomas Kostigen wrote in his "Ethics Monitor" column for Dow Jones MarketWatch, "...Pepsi should address shareholder concerns, not hide from them; disclosure is never a bad thing for a company to embrace." Bruce Meyerson, a business writer for the Associated Press, wrote that our proposal was "worthy of consideration since increased disclosure is rarely a negative for investors."

Current disclosure is insufficient to allow the Company's Board and its shareholders to fully evaluate the charitable use of corporate assets, especially for controversial causes.

Details of contributions sometimes become known when publicized by recipients. A Company contribution to the Rainbow/PUSH coalition was disclosed in a Rainbow/PUSH conference program in 2006.

If you AGREE, please mark your proxy FOR this resolution."

Response: PepsiCo agrees that shareholders should be provided with information on how their company is spending funds for charitable purposes. PepsiCo has been providing this information since 1999. To further improve this reporting, the company substantially augmented its disclosures on charitable giving in 2006. The Company believes the detailed information provided in the Contributions section of our website (www.pepsico.com), which is updated during the year, already addresses this proposal and therefore there is no need to adopt this resolution.

The Board of Directors recommends that shareholders vote AGAINST this resolution.

OTHER MATTERS

The Board of Directors knows of no other matters to be brought before the Annual Meeting.

2008 SHAREHOLDERS' PROPOSALS

PepsiCo welcomes comments or suggestions from its shareholders. If a shareholder wants to have a proposal formally considered at the 2008 Annual Meeting of Shareholders, and included in the Proxy Statement for that Meeting, we must receive the proposal in writing on or before November 24, 2007. In addition, if a shareholder proposal is not received by us on or before February 3, 2008, under PepsiCo's By-Laws it will not be considered or voted on at the Annual Meeting.

GENERAL

PepsiCo will pay the costs relating to this Proxy Statement, the proxy and the Annual Meeting.

In addition to the solicitation of proxies by mail and electronically, PepsiCo intends to ask brokers and bank nominees to solicit proxies from their principals and will pay the brokers and bank nominees their expenses for the solicitation. Employees of PepsiCo may also solicit proxies. They will not receive any additional pay for the solicitation.

To be sure that we have the necessary quorum to hold the Annual Meeting, PepsiCo has hired the firm of Georgeson Shareholder Communications Inc. to help in soliciting proxies by mail, telephone and personal interview for fees estimated at approximately \$35,000.

The Annual Report to Shareholders for 2006, including financial statements, was delivered with this Proxy Statement or was previously delivered to shareholders and is not part of the material for the solicitation of proxies. To reduce postage costs, we sent materials at bulk mail rates. If you have not received the Annual Report by the time you receive your Proxy Statement, please contact PepsiCo's Manager of Shareholder Relations, at PepsiCo, Inc., 700 Anderson Hill Road, Purchase, NY 10577 or (914) 253-3055. The Annual Report can also be found on our website at www.pepsico.com by clicking on "Investors – Investor Overview."

Shareholders can help us reduce the cost of printing and mailing the Proxy Statement and the Annual Report by opting to receive future materials electronically. To enroll, please visit our website at www.pepsico.com, click on the "Investors – Shareholder Information – Electronic Delivery Enrollment" links and follow the instructions provided.

A copy of PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 (without exhibits) will be sent to any shareholder without charge by contacting the Company at the address or phone number listed above. You also may obtain our Annual Report on Form 10-K over the Internet at the Securities and Exchange Commission's website, www.sec.gov, or at our website, www.pepsico.com.

Please vote your shares promptly through any of the means described on the proxy card.

By order of the Board of Directors,



Larry D. Thompson
Secretary

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PepsiCo, Inc.

CORPORATE GOVERNANCE GUIDELINES

As of September 15, 2006

The Board of Directors (the "Board") of PepsiCo, Inc. (the "Corporation"), acting on the recommendation of its Nominating and Corporate Governance Committee, has developed and adopted certain corporate governance principles (the "Guidelines") establishing a common set of expectations to assist the Board and its Committees in performing their duties in compliance with applicable requirements. In recognition of the continuing discussions about corporate governance, the Board will review and, if appropriate, revise these Guidelines from time to time.

A. *Director Responsibilities*

1. Represent the interests of the Corporation's shareholders in maintaining and enhancing the success of the Corporation's business, including optimizing long-term returns to increase shareholder value.
2. Selection and evaluation of a well-qualified Chief Executive Officer ("CEO") of high integrity, and approval of other members of the senior management team.
3. Oversee and interact with senior management with respect to key aspects of the business including strategic planning, management development and succession, operating performance, and shareholder returns.
4. Provide general advice and counsel to the Corporation's CEO and senior executives.
5. Adopt and oversee compliance with the Corporation's Worldwide Code of Conduct. Promptly disclose any waivers of the Code of Conduct for Directors or executive officers.
6. Hold regularly scheduled executive sessions of independent directors. Designate and publicly disclose the name of the Director who will preside at such meetings. Formally evaluate the performance of the CEO and senior management each year in executive sessions.
7. Regular attendance at Board meetings is mandatory. Meeting materials should be reviewed in advance.
8. *Duty of Care:* In discharging the duties of a Director, including duties as a Committee member, North Carolina law requires that a Director shall act: (1) in good faith; (2) with care an ordinary prudent person in a like position would exercise under similar circumstances and (3) in a manner he or she believes to be in the best interests of the Corporation.

B. *Director Qualification Standards*

1. The Nominating and Corporate Governance Committee, with the input of the CEO, is responsible for recommending to the Board (1) nominees for Board membership to fill vacancies or newly created positions and (2) the persons to be nominated by the Board for election at the Corporation's Annual Meeting of Shareholders. The Nominating and Corporate Governance Committee does not solicit Director nominations, but will consider recommendations sent to the Secretary of the Corporation at 700 Anderson Hill Road, Purchase, New York 10577.
2. In connection with the selection and nomination process, the Nominating and Corporate Governance Committee shall review the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Corporation and the Board. The

Board will generally look for individuals who have displayed high ethical standards, integrity, and sound business judgment. This process is designed to ensure that the Board includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to the business of the Corporation.

3. Independent directors must comprise a majority of the Board.
4. An independent director of the Corporation is a director who:
 - (a) is not and has not been an employee, and does not have an immediate family member¹ who is or has been an executive officer², of the Corporation, or any of its consolidated subsidiaries, during the last three years;
 - (b) has not received, and does not have an immediate family member who has received, more than \$100,000 in direct compensation from the Corporation, or any of its consolidated subsidiaries, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) during any twelve month period within the last three years;
 - (c) (i) is not, and does not have an immediate family member that is, a current partner of a firm that is the Corporation's, or any of its consolidated subsidiaries', internal or external auditor; (ii) is not a current employee of such external audit firm; (iii) does not have an immediate family member who is a current employee of such external audit firm who participates in such firm's audit, assurance or tax compliance (but not tax planning) practice; and (iv) was not, and does not have an immediate family member that was, within the last three years (but is no longer) a partner or employee of such external audit firm who personally worked on the Corporation's, or any of its consolidated subsidiaries', audit within that time;
 - (d) is not and has not been, and does not have an immediate family member who is or has been, within the last three years, employed as an executive officer of another company where any of the Corporation's, or any of its consolidated subsidiaries', present executive officers at the same time serves or served on such other company's compensation committee;
 - (e) is not a current employee of, and does not have an immediate family member who is a current executive officer of, another company that has made payments to, or has received payments from, the Corporation, or any of its consolidated subsidiaries, for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of the consolidated gross revenues of such other company for its last completed fiscal year; and
 - (f) has no other material relationship with the Corporation, or any of its consolidated subsidiaries, either directly or as a partner, shareholder or officer of an organization that has a material relationship with the Corporation, or any of its consolidated subsidiaries.

In making a determination regarding a proposed director's independence, the Board shall consider all relevant facts and circumstances, including the director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, and such other criteria as the Board may determine from time to time. If a proposed director serves as an executive officer, director or trustee of a tax exempt organization,

¹ An "immediate family member" is defined to include a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares such person's home. In considering a director's independence, the Corporation need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

² An "executive officer" means one of the Section 16 officers designated by a company.

such relationship will not be considered to be a material relationship that would impair a director's independence if contributions from the Corporation, or any of its consolidated subsidiaries, to such tax exempt organization in any of the last three fiscal years are less than the greater of (i) \$1 million or (ii) 2% of the consolidated gross revenues of such tax exempt organization for its last completed fiscal year.

5. In addition to satisfying all of the independence criteria set forth in paragraph 4 of this Section, all members of the Audit Committee must also meet the following requirements:
 - (a) Director's fees are the only compensation that members of the Audit Committee may receive from the Corporation or any of its consolidated subsidiaries. Audit Committee members may not receive consulting, advisory or other compensatory fees from the Corporation or any of its consolidated subsidiaries (other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other Committee of the Board).
 - (b) No member of the Audit Committee may be an "affiliated person" of the Corporation, or any of its consolidated subsidiaries, as such term is defined by the Securities and Exchange Commission.
6. Directors must retire at the age of 72, effective upon the expiration of their annual term at the next Annual Meeting of Shareholders.
7. The number of boards on which a Director may sit may be reviewed on a case-by-case basis by the Nominating and Corporate Governance Committee. Prior to accepting any position on the Board of Directors of any non-profit or for-profit organization, the Director shall notify the office of Corporate Secretary. The number of audit committees on which the Corporation's audit committee members may sit concurrently shall be reviewed annually by the Nominating and Corporate Governance Committee and the Board.
8. The Board has not established term limits for Directors. Although term limits can promote the inclusion on the Board of people with diverse perspectives, the process described in paragraph 2 of this Section can achieve the same result. Moreover, term limits have the disadvantage of causing the Corporation to lose the contributions of Directors who have been able to develop over a period of time, increasing insight into the Corporation and its operations, thereby increasing their contributions to the Corporation.
9. A Director shall offer, in writing, to resign if there is any significant change in his or her personal circumstances, including a fundamental change in his or her job responsibilities. The Chairman of the Nominating and Corporate Governance Committee may recommend, to the full Board, acceptance or rejection of such an offer after consultation with the Committee members and the Chairman of the Board.

C. *Voting for Directors*

1. Any nominee for Director in an uncontested election (i.e., an election where the number of nominees is not greater than the number of Directors to be elected) who receives a greater number of votes "against" his or her election than votes "for" such election shall, promptly following certification of the shareholder vote, offer his or her resignation to the Board unless otherwise determined by the Board in accordance with the procedures set forth below. The resignation offer shall be in writing and shall be an irrevocable resignation offer pending acceptance or rejection as provided herein.
2. The Nominating and Corporate Governance Committee shall consider the resignation offer and make a recommendation to the Board. The independent members of the Board will act on the Nominating and Corporate Governance Committee's recommendation within 90 days following certification of the shareholder vote.

3. In deciding the action to be taken with respect to any such resignation offer, the independent members of the Board shall limit their consideration to determining what is in the best interests of the Corporation and its shareholders. In this regard, the Board should consider all factors deemed relevant, including but not limited to: (i) any stated reasons why shareholders voted against such Director, (ii) any alternatives for curing the underlying cause of the "against" votes, (iii) the Director's tenure, (iv) the Director's qualifications, (v) the Director's past and expected future contributions to the Corporation, and (vi) the overall composition of the Board, including whether accepting the resignation offer would cause the Corporation to be in violation of its constituent documents or fail to meet any applicable regulatory or contractual requirements. The Board's actions with respect to any such resignation offer may include: (i) accepting the resignation offer, (ii) deferring acceptance of the resignation offer until a replacement Director with certain necessary qualifications held by the subject Director (e.g., Audit Committee financial expertise) can be identified and elected to the Board, (iii) maintaining the Director but addressing what the independent members of the Board believe to be the underlying cause of the "against" votes, (iv) resolving that the Director will not be re-nominated in the future for election, or (v) rejecting the resignation offer. An accepted resignation offer will become effective immediately upon acceptance or upon such other time as determined by the independent members of the Board consistent with this policy.
4. Following the determination by the independent members of the Board, the Corporation shall promptly disclose publicly in a document furnished or filed with the Securities and Exchange Commission the decision of whether or not to accept the resignation offer. The disclosure shall also include an explanation of how the decision was reached, including, if applicable, the reasons for rejecting the resignation offer.
5. A Director who is required to offer to resign in accordance with this Section C shall not be present during the deliberations or voting by the Nominating and Corporate Governance Committee or the Board as to whether to recommend or accept his or her resignation offer or an offer by any other Director to tender his or her resignation in accordance with this Section C. However, if enough members of the Nominating and Corporate Governance Committee do not receive more "for" votes than "against" votes in the same uncontested election such that a quorum of the Nominating and Corporate Governance Committee cannot be attained, then the other independent Directors who received a greater number of "for" votes than "against" votes in that election will be asked to consider and decide whether to accept the resignation offers of the affected Directors. If only three or fewer independent Directors did not receive more "for" votes than "against" votes in the same uncontested election, then all independent Directors may participate in any discussions or actions with respect to accepting or turning down the resignation offers (except that no Director will vote to accept or turn down his or her own resignation offer). Any affected Director will be afforded the opportunity to provide any information or statement that he or she deems relevant.

D. Board Committees

1. The Board shall at all times have a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee, each comprised solely of independent directors.
2. The Board shall evaluate and determine the circumstances under which to form new Committees.
3. The Nominating and Corporate Governance Committee shall annually review succession plans for the members of the Board, the members of the Committees of the Board, and the Chair of the Committees of the Board.

E. *Director Compensation*

1. Non-employee directors and committee chairs shall receive reasonable compensation for their services, as may be determined from time to time by the Board upon recommendation of the Nominating and Corporate Governance Committee. Compensation for non-employee directors and committee chairs shall be consistent with the market practices of other similarly situated companies but shall not be at a level or in a form that would call into question the Board's objectivity. The Nominating and Corporate Governance Committee of the Board shall annually review and report to the Board with respect to director compensation and benefits.
2. Directors who are employees receive no additional pay for serving as Directors.
3. Directors who are members of the Audit Committee may receive no compensation from the Corporation other than the fees they receive for serving as Directors.

F. *Director Access to Management and Independent Advisors*

1. The Board is expected to be highly interactive with senior management. Directors are granted access to the name, location, and phone number of all employees of the Corporation.
2. It is Board policy that executive officers and other members of senior management who report directly to the CEO be present at Board meetings at the invitation of the Board. The Board encourages such executive officers and senior management to make presentations, or to include in discussions at Board meetings managers and other employees who (1) can provide insight into the matters being discussed because of their functional expertise and/or personal involvement in such matters and/or (2) are individuals with high potential whom such executive officers and senior management believe the Directors should have the opportunity to meet and evaluate.
3. Directors are authorized to consult with independent advisors, as is necessary and appropriate, without consulting management.

G. *Director Orientation and Continuing Education*

1. The Board shall implement and maintain an orientation program for newly elected directors.
2. Directors are required to continue educating themselves with respect to international markets, accounting and finance, leadership, crisis response, industry practices, general management, and strategic planning.

H. *Management Succession and CEO Compensation*

1. The CEO shall provide an annual report to the Board assessing senior managers and their potential to succeed him or her, and such report shall be developed in consultation with the Chairman of the Compensation Committee and include plans in the event of an emergency or retirement of the CEO. The report shall also contain the CEO's recommendation as to his or her successor.
2. The Board has the primary responsibility for plans for succession to the position of Chief Executive Officer. The Compensation Committee oversees preparation of succession plan presentations to the Board. The Committee Chairman works with the CEO in the preparation of the succession plan presentations. The Committee undertakes such follow-up steps with respect to succession planning as may be delegated by the Board from time to time.
3. The Compensation Committee is responsible for making recommendations to the Board concerning annual and long-term performance goals for the CEO and for evaluating his or her performance against such goals.

I. Annual Performance Evaluation of the Board

1. The Board and its Committees will conduct a self-evaluation at least annually to determine whether it and its Committees are functioning effectively.
2. The Board will also review the Nominating and Corporate Governance Committee's periodic recommendations concerning the performance and effectiveness of the Board and its Committees.

PepsiCo, Inc.**2007 LONG-TERM INCENTIVE PLAN****1. Purposes.**

The purposes of the Plan are to provide long-term incentives to those persons with significant responsibility for the success and growth of PepsiCo and its subsidiaries, divisions and affiliated businesses, to associate the interests of such persons with those of PepsiCo's shareholders, to assist PepsiCo in recruiting, retaining and motivating a diverse group of employees and outside directors on a competitive basis, and to ensure a pay for performance linkage for such employees and outside directors. If approved by PepsiCo's shareholders, the Plan shall replace the 2003 Long-Term Incentive Plan, and no further awards shall be made under the 2003 Long-Term Incentive Plan.

2. Definitions.

For purposes of the Plan:

- (a) "2003 Long-Term Incentive Plan" means the PepsiCo, Inc. 2003 Long-Term Incentive Plan, as amended and restated from time to time.
- (b) "Annual Grant" has the meaning set forth in Section 8(c).
- (c) "Award" means a grant of Options, Stock Appreciation Rights, Restricted Shares, Restricted Stock Units, Performance Shares, Performance Units, Stock Awards, or any or all of them (but a Stock Award may not be granted to employees or officers).
- (d) "Board" means the Board of Directors of PepsiCo.
- (e) "Cause" has the meaning set forth in Section 11(b)(ii).
- (f) "Change in Control" has the meaning set forth in Section 11(b)(i).
- (g) "Change-in-Control Treatment" has the meaning set forth in Section 11(a)(ii).
- (h) "Code" means the Internal Revenue Code of 1986, as amended.
- (i) "Committee" means, with respect to any matter relating to Section 8 of the Plan, the Board, and with respect to all other matters under the Plan, the Compensation Committee of the Board. The Compensation Committee shall be appointed by the Board and shall consist of two or more outside, disinterested members of the Board. In the judgment of the Board, the Compensation Committee shall be qualified to administer the Plan as contemplated by (a) Rule 16b-3 of the Exchange Act, (b) Code Section 162(m) and the regulations thereunder (or any successor Code Section and regulations), and (c) any rules and regulations of a stock exchange on which Common Stock is traded. Any member of the Compensation Committee of the Board who does not satisfy the qualifications set out in the preceding sentence may recuse himself or herself from any vote or other action taken by the Compensation Committee of the Board. The Board may, at any time and in its complete discretion, remove any member of the Compensation Committee and may fill any vacancy in the Compensation Committee.
- (j) "Common Stock" means the common stock, par value 1 $\frac{2}{3}$ cents per share, of PepsiCo.
- (k) "Company" means PepsiCo, its subsidiaries, divisions and affiliated businesses.
- (l) "Covered Employee" means any PepsiCo employee for whom PepsiCo is subject to the deductibility limitation imposed by Code Section 162(m).
- (m) "Eligible Person" means any of the following individuals who is designated by the Committee as eligible to receive Awards, subject to the conditions set forth in the Plan:
 - (i) any employee of the Company (including any officer of the Company and any

Employee Director) provided that the term employee does not include any individual who is not, as of the grant date of an Award, classified by the Company as an employee on its corporate books and records even if that individual is later reclassified (by the Company, any court or any governmental agency) as an employee as of the grant date; (ii) any consultant or advisor of the Company; and (iii) any Non-Employee Director who is eligible to receive an Award in accordance with Section 8 hereof.

- (n) "Employee Director" means a member of the Board who is also an employee of the Company.
- (o) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.
- (p) "Fair Market Value" on any date means the average of the high and low market prices at which a share of Common Stock shall have been sold on such date, or the immediately preceding trading day if such date was not a trading day, as reported on the New York Stock Exchange Composite Transactions Listing and, in the case of an ISO, means fair market value as determined by the Committee in accordance with Code Section 422 and, in the case of an Option that is not exempt from Code Section 409A, fair market value as determined by the Committee in accordance with Code Section 409A.
- (q) "Good Reason" has the meaning set forth in Section 11(b)(iii).
- (r) "Initial Grant" has the meaning set forth in Section 8(b).
- (s) "ISO" means an Option satisfying the requirements of Code Section 422 and designated as an ISO by the Committee.
- (t) "Non-Employee Director" means a member of the Board who is not an employee of the Company.
- (u) "NQSO" or "Non-Qualified Stock Option" means an Option that does not satisfy the requirements of Code Section 422 or that is not designated as an ISO by the Committee.
- (v) "Options" means the right to purchase shares of Common Stock at a specified price for a specified period of time.
- (w) "Option Exercise Price" means the purchase price per share of Common Stock covered by an Option granted pursuant to the Plan.
- (x) "Participant" means an Eligible Person who has received an Award under the Plan.
- (y) "PepsiCo" means PepsiCo, Inc., a North Carolina corporation, and its successors and assigns.
- (z) "Performance Awards" means an Award of Options, Performance Shares, Performance Units, Restricted Shares, Restricted Stock Units or SARs conditioned on the achievement of Performance Goals during a Performance Period.
- (aa) "Performance-Based Exception" means the performance-based exception to the deductibility limitations of Code Section 162(m), as set forth in Code Section 162(m)(4)(C).
- (bb) "Performance Goals" means the goals established by the Committee under Section 7(d).
- (cc) "Performance Measures" means the criteria set out in Section 7(d) that may be used by the Committee as the basis for a Performance Goal.
- (dd) "Performance Period" means the period established by the Committee during which the achievement of Performance Goals is assessed in order to determine whether and to what extent an Award that is conditioned on attaining Performance Goals has been earned.

- (ee) "Performance Shares" means an Award of shares of Common Stock awarded to a Participant based on the achievement of Performance Goals during a Performance Period.
- (ff) "Performance Units" means an Award denominated in shares of Common Stock, cash or a combination thereof, as determined by the Committee, awarded to a Participant based on the achievement of Performance Goals during a Performance Period.
- (gg) "Plan" means this PepsiCo, Inc. 2007 Long-Term Incentive Plan, as amended and restated from time to time.
- (hh) "Prior Plans" means the PepsiCo, Inc. 2003 Long-Term Incentive Plan, the PepsiCo, Inc. 1994 Long-Term Incentive Plan, the PepsiCo, Inc. 1995 Stock Option Incentive Plan, the PepsiCo SharePower Stock Option Plan, the Director Stock Plan, the PepsiCo 1987 Incentive Plan, the Quaker Long Term Incentive Plan of 1990, the Quaker Long Term Incentive Plan of 1999 and the Quaker Stock Compensation Plan for Outside Directors, each as amended and restated from time to time.
- (ii) "Restricted Shares" means shares of Common Stock that are subject to such restrictions and such other terms and conditions as the Committee may establish.
- (jj) "Restricted Stock Units" means the right, as described in Section 7(c), to receive an amount, payable in either cash, shares of Common Stock or a combination thereof, equal to the value of a specified number of shares of Common Stock, subject to such terms and conditions as the Committee may establish.
- (kk) "Restriction Period" means, with respect to Restricted Shares or Restricted Stock Units, the period during which any risk of forfeiture or other restrictions set by the Committee remain in effect. Such restrictions remain in effect until such time as they have lapsed under the terms and conditions of the Restricted Shares or Restricted Stock Units or as otherwise determined by the Committee.
- (ll) "Retirement" with respect to a Non-Employee Director means a Non-Employee Director's departure from the Board after such Non-Employee Director shall have attained at least age 55 or after such Non-Employee Director shall have satisfied the criteria for Retirement established by the Employee Directors from time to time.
- (mm) "SharePower Program" means the broad-based equity program under the Plan.
- (nn) "Stock Appreciation Rights" or "SARs" means the right to receive a payment equal to the excess of the Fair Market Value of a share of Common Stock on the date the Stock Appreciation Rights are exercised over the exercise price per share of Common Stock established for those Stock Appreciation Rights at the time of grant, multiplied by the number of shares of Common Stock with respect to which the Stock Appreciation Rights are exercised.
- (oo) "Stock Award" means an Award of shares of Common Stock that are subject to such terms, conditions and restrictions (if any) as determined by the Committee in accordance with Section 7(e).
- (pp) "Total Disability" has the meaning set forth in the long-term disability program of PepsiCo; provided that, to the extent an Award provides for payment upon Total Disability and the Award is not exempt from Code Section 409A, Total Disability shall have the meaning set forth in Code Section 409A(a)(2)(C).

3. Administration of the Plan.

- (a) *Authority of Committee.* The Plan shall be administered by the Committee, which shall have all the powers vested in it by the terms of the Plan, such powers to include the authority (within the limitations described in the Plan):
 - to select the persons to be granted Awards under the Plan;
 - to determine the type, size and terms of Awards to be made to each Participant;

- to determine the time when Awards are to be granted and any conditions that must be satisfied before an Award is granted;
 - to establish objectives and conditions for earning Awards;
 - to determine whether an Award shall be evidenced by an agreement and, if so, to determine the terms and conditions of such agreement (which shall not be inconsistent with the Plan) and who must sign such agreement;
 - to determine whether the conditions for earning an Award have been met and whether an Award will be paid at the end of an applicable Performance Period;
 - except as otherwise provided in Section 7(d), to modify the terms of Awards made under the Plan;
 - to determine if, when and under what conditions payment of all or any part of an Award may be deferred;
 - to determine whether the amount or payment of an Award should be reduced or eliminated;
 - to determine the guidelines and/or procedures for the payment or exercise of Awards; and
 - to determine whether an Award should qualify, regardless of its amount, as deductible in its entirety for federal income tax purposes, including whether any Awards granted to Covered Employees should comply with the Performance-Based Exception.
- (b) *Interpretation of Plan.* The Committee shall have full power and authority to administer and interpret the Plan and to adopt or establish such rules, regulations, agreements, guidelines, procedures and instruments, which are not contrary to the terms of the Plan and which, in its opinion, may be necessary or advisable for the administration and operation of the Plan. The Committee's interpretations of the Plan, and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder, shall be conclusive and binding on all parties concerned, including PepsiCo, its shareholders and all Eligible Persons and Participants.
- (c) *Delegation of Authority.* To the extent not prohibited by law, the Committee (i) may delegate its authority hereunder to one or more of its members or other persons (except that no such delegation shall be permitted with respect to Awards to Eligible Persons who are subject to Section 16 of the Exchange Act and Awards intended to comply with the Performance-Based Exception) and (ii) may grant authority to employees or designate employees of the Company to execute documents on behalf of the Committee or to otherwise assist the Committee in the administration and operation of the Plan.

4. Eligibility.

- (a) *General.* Subject to the terms and conditions of the Plan, the Committee may, from time to time, select from all Eligible Persons those to whom Awards shall be granted under Section 7 and shall determine the nature and amount of each Award. Non-Employee Directors shall be eligible to receive Awards only pursuant to Section 8.
- (b) *International Participants.* Notwithstanding any provision of the Plan to the contrary, in order to foster and promote achievement of the purposes of the Plan or to comply with provisions of the laws in countries outside the United States in which the

Company operates or has employees, the Committee, in its sole discretion, shall have the power and authority to (i) determine which Eligible Persons (if any) employed by the Company outside the United States should participate in the Plan, (ii) modify the terms and conditions of any Awards made to such Eligible Persons, and (iii) establish sub-plans, modified Option exercise procedures and other Award terms, conditions and procedures to the extent such actions may be necessary or advisable to comply with provisions of the laws in such countries outside the United States in order to assure the lawfulness, validity and effectiveness of Awards granted under the Plan and to the extent such actions are consistent with the Committee's authority to amend the Plan absent shareholder approval pursuant to Section 13(b).

5. *Shares of Common Stock Subject to the Plan.*

- (a) *Authorized Number of Shares.* Unless otherwise authorized by PepsiCo's shareholders and subject to the provisions of this Section 5 and Section 10, the maximum aggregate number of shares of Common Stock available for issuance under the Plan shall be the total of (i) 65 million plus (ii) the total number of shares of Common Stock underlying awards under the Prior Plans that are cancelled or expire after the effective date of the Plan without delivery of shares. Any of the authorized shares may be used for any of the types of Awards described in the Plan, except:
 - (i) at least 20 million of the authorized shares of Common Stock will be exclusively available for issuance pursuant to Awards under the SharePower Program;
 - (ii) no more than 20 million of the authorized shares of Common Stock may be issued pursuant to Awards other than Options or SARs; and
 - (iii) no more than 45 million of the authorized shares of Common Stock may be issued in the form of ISOs.
- (b) *Share Counting.* The following rules shall apply in determining the number of shares of Common Stock remaining available for grant under the Plan:
 - (i) In connection with the granting of an Option or other Award, the number of shares of Common Stock available for issuance under the Plan shall be reduced by the number of shares of Common Stock in respect of which the Option or Award is granted or denominated. For example, upon the grant of stock-settled SARs, the number of shares of Common Stock available for issuance under the Plan shall be reduced by the full number of SARs granted, and the number of shares of Common Stock available for issuance under the Plan shall not thereafter be increased upon the exercise of the SARs and settlement in shares of Common Stock, even if the actual number of shares of Common Stock delivered in settlement of the SARs is less than the full number of SARs exercised. However, Awards that by their terms do not permit settlement in shares of Common Stock shall not reduce the number of shares of Common Stock available for issuance under the Plan.
 - (ii) Any shares of Common Stock that are tendered by a Participant or withheld as full or partial payment of withholding or other taxes or as payment for the exercise or conversion price of an Award under the Plan shall not be added back to the number of shares of Common Stock available for issuance under the Plan.
 - (iii) Whenever any outstanding Option or other Award (or portion thereof) expires, is cancelled, is settled in cash rather than in shares of Common Stock (pursuant to the terms of an Award that permits but does not require cash settlement) or is otherwise terminated for any reason without having been exercised or payment having been made in the form of shares of Common Stock, the number of shares of Common Stock available for issuance under

the Plan shall be increased by the number of shares of Common Stock allocable to the expired, cancelled, settled or otherwise terminated Option or other Award (or portion thereof).

- (iv) Any shares of Common Stock underlying Awards granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who become employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company shall not, unless required by law or regulation, count against the reserve of available shares of Common Stock under the Plan.
- (c) *Shares to be Delivered.* The source of shares of Common Stock to be delivered by the Company under the Plan shall be determined by the Company and may consist in whole or in part of authorized but unissued shares or repurchased shares.

6. Award Limitations.

The maximum number of shares of Common Stock subject to Options and SARs that can be granted to any Eligible Person during a single calendar year shall not exceed two (2) million. The maximum amount of Awards other than Options and SARs that can be granted to any Eligible Person during a single calendar year shall not exceed \$15 million; provided that the foregoing limitation shall be applied to an Award that is denominated in shares of Common Stock on the basis of the Fair Market Value of such shares on the date the Award is granted. Notwithstanding the limitation set forth in the preceding sentence, the maximum Award that may be granted to any Eligible Person for a Performance Period longer than one calendar year shall not exceed the foregoing annual maximum multiplied by the number of full calendar years in the Performance Period.

7. Awards to Eligible Persons.

- (a) *Options.*
 - (i) *Grants.* Subject to the terms and conditions of the Plan, Options may be granted to Eligible Persons. Options may consist of ISOs or NQSOs, as the Committee shall determine. Options may be granted alone or in tandem with SARs. With respect to Options granted in tandem with SARs, the exercise of either such Options or such SARs will result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.
 - (ii) *Option Exercise Price.* The Option Exercise Price shall be equal to or, at the Committee's discretion, greater than the Fair Market Value on the date the Option is granted, unless the Option was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company.
 - (iii) *Term.* The term of Options shall be determined by the Committee in its sole discretion, but in no event shall the term exceed ten (10) years from the date of grant; provided, however, that Awards of NQSOs and SARs covering up to five (5) million shares of Common Stock, in the aggregate, may be issued with a term of up to fifteen (15) years.
 - (iv) *ISO Limits.* ISOs may be granted only to Eligible Persons who are employees of PepsiCo or of any parent or subsidiary corporation (within the meaning of Code Section 424) on the date of grant, and may only be granted to an employee who, at the time the Option is granted, does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of PepsiCo or of any parent or subsidiary corporation (within the meaning of Code Section 424). The aggregate Fair Market Value of all shares of Common Stock with respect to which ISOs are exercisable by a Participant for the first time during any calendar year (under all plans of the Company) shall not exceed \$100,000 or such other amount as may

subsequently be specified by the Code and/or applicable regulations. The aggregate Fair Market Value of such shares shall be determined at the time the Option is granted. ISOs shall contain such other provisions as the Committee shall deem advisable but shall in all events be consistent with and contain or deem to contain all provision required in order to qualify as incentive stock options under Code Section 422.

- (v) *No Repricing.* Except for adjustments made pursuant to Section 10, the Option Exercise Price for any outstanding Option granted under the Plan may not be decreased after the date of grant nor may any outstanding Option granted under the Plan be surrendered to the Company as consideration for the grant of a new Option with a lower Option Exercise Price without the approval of PepsiCo's shareholders.
 - (vi) *Form of Payment.* The Option Exercise Price shall be paid to the Company at the time of such exercise, subject to any applicable rules or regulations adopted by the Committee:
 - (A) to the extent permitted by applicable law, pursuant to cashless exercise procedures that are, from time to time, approved by the Committee; proceeds from any such exercise shall be used to pay the exercise costs, which include the Option Exercise Price, statutory minimum applicable taxes, brokerage commissions and SEC fees; any remaining proceeds from the sale shall be delivered to the Participant in cash or stock as specified by the Participant;
 - (B) through the tender of shares of Common Stock owned by the Participant (or by delivering a certification or attestation of ownership of such shares) valued at their Fair Market Value on the date of exercise;
 - (C) in cash or its equivalent; or
 - (D) by any combination of (A), (B), and (C) above.
 - (vii) *No Dividend Equivalents.* No dividends or dividend equivalents may be paid on Options. Except as otherwise provided herein, a Participant shall have no rights as a holder of Common Stock with respect to shares of Common Stock covered by an Option unless and until such shares of Common Stock have been registered to the Participant as the owner.
- (b) *Stock Appreciation Rights.*
- (i) *Grants.* Subject to the terms and provisions of the Plan, SARs may be granted to Eligible Persons. SARs may be granted alone or in tandem with Options. With respect to SARs granted in tandem with Options, the exercise of either such Options or such SARs will result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.
 - (ii) *Exercise Price.* The exercise price per share of Common Stock covered by a SAR granted pursuant to the Plan shall be equal to or, at the Committee's discretion, greater than Fair Market Value on the date the SAR is granted, unless the SAR was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company.
 - (iii) *Term.* The term of a SAR shall be determined by the Committee in its sole discretion, but, subject to Section 7(a)(iii), in no event shall the term exceed ten (10) years from the date of grant.
 - (iv) *No Repricing.* Except for adjustments made pursuant to Section 10, the exercise price for any outstanding SAR granted under the Plan may not be

decreased after the date of grant nor may any outstanding SAR granted under the Plan be surrendered to the Company as consideration for the grant of a new SAR with a lower exercise price without the approval of PepsiCo's shareholders.

- (v) *Form of Payment.* The Committee may authorize payment of a SAR in the form of cash, Common Stock valued at its Fair Market Value on the date of the exercise, a combination thereof, or by any other method as the Committee may determine.
 - (vi) *No Dividend Equivalents.* No dividends or dividend equivalents may be paid on SARs.
- (c) *Restricted Shares / Restricted Stock Units.*
- (i) *Grants.* Subject to the terms and provisions of the Plan, Restricted Shares or Restricted Stock Units may be granted to Eligible Persons.
 - (ii) *Restrictions.* The Committee shall impose such terms, conditions and/or restrictions on any Restricted Shares or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation: a requirement that Participants pay a stipulated purchase price for each Restricted Share or each Restricted Stock Unit; forfeiture conditions; transfer restrictions; restrictions based upon the achievement of specific performance goals (Company-wide, divisional, and/or individual); time-based restrictions on vesting; and/or restrictions under applicable federal or state securities laws. Any time-based Restriction Period shall be for a minimum of three years (subject to acceleration due to the Participant's death, total disability, retirement, retirement eligibility or transfer to an affiliated business, in each case as specified in the applicable award agreement); provided that up to 150,000 shares of Common Stock shall be available for issuance subject to Restricted Shares or Restricted Stock Units having a time-based Restriction Period less than three years but not less than one year. To the extent the Restricted Shares or Restricted Stock Units are intended to be deductible under Code Section 162(m), the applicable restrictions shall be based on the achievement of Performance Goals over a Performance Period, as described in Section 7(d) below.
 - (iii) *Payment of Restricted Stock Units.* Restricted Stock Units that become payable in accordance with their terms and conditions shall be settled in cash, shares of Common Stock, or a combination of cash and shares, as determined by the Committee. Any person who holds Restricted Stock Units shall have no ownership interest in the shares of Common Stock to which the Restricted Stock Units relate unless and until payment with respect to such Restricted Stock Units is actually made in shares of Common Stock.
 - (iv) *Transfer Restrictions.* During the Restriction Period, Restricted Shares may not be sold, assigned, transferred or otherwise disposed of, or mortgaged, pledged or otherwise encumbered. In order to enforce the limitations imposed upon the Restricted Shares, the Committee may (a) cause a legend or legends to be placed on any certificates evidencing such Restricted Shares, and/or (b) cause "stop transfer" instructions to be issued, as it deems necessary or appropriate. Restricted Stock Units may not be sold, assigned, transferred or otherwise disposed of, or mortgaged, pledged, or otherwise encumbered at any time.
 - (v) *Dividend and Voting Rights.* Unless otherwise determined by the Committee, during the Restriction Period, Participants who hold Restricted Shares shall have the right to receive dividends in cash or other property or other distribution or rights in respect of such shares and shall have the right to vote

such shares as the record owners thereof; provided that, unless otherwise determined by the Committee, any dividends or other property payable to a Participant during the Restriction Period shall be distributed to the Participant only if and when the restrictions imposed on the applicable Restricted Shares lapse. Unless otherwise determined by the Committee, during the Restriction Period, Participants who hold Restricted Stock Units shall be credited with dividend equivalents in respect of such Restricted Stock Units; provided that, unless otherwise determined by the Committee, such dividend equivalents shall be distributed (without interest) to the Participant only if and when the restrictions imposed on the applicable Restricted Stock Units lapse.

- (vi) *Ownership of Restricted Shares.* Restricted Shares issued under the Plan shall be registered in the name of the Participant on the books and records of the Company or its designee (or by one or more physical certificates if physical certificates are issued with respect to such Restricted Shares) subject to the applicable restrictions imposed by the Plan. If a Restricted Share is forfeited in accordance with the restrictions that apply to such Restricted Shares, such interest or certificate, as the case may be, shall be cancelled. At the end of the Restriction Period that applies to Restricted Shares, the number of shares to which the Participant is then entitled shall be delivered to the Participant free and clear of the restrictions, either in certificated or uncertificated form. No shares of Common Stock shall be registered in the name of the Participant with respect to a Restricted Stock Unit unless and until such unit is paid in shares of Common Stock.

(d) *Performance Awards.*

- (i) *Grants.* Subject to the provisions of the Plan, Performance Awards may be granted to Eligible Persons. Performance Awards may be granted either alone or in addition to other Awards made under the Plan.
- (ii) *Performance Goals.* Unless otherwise determined by the Committee, Performance Awards shall be conditioned on the achievement of Performance Goals (which shall be based on one or more Performance Measures, as determined by the Committee) over a Performance Period. The Performance Period shall be one year, unless otherwise determined by the Committee.
- (iii) *Performance Measures.* The Performance Measure(s) to be used for purposes of Performance Awards may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit of the Company, and may consist of one or more or any combination of the following criteria: stock price; market share; sales revenue; cash flow; sales volume; earnings per share; return on equity; return on assets; return on sales; return on invested capital; economic value added; net earnings; total shareholder return; gross margin; and costs. The Performance Goals based on these Performance Measures may be expressed in absolute terms or relative to the performance of other entities.
- (iv) *Negative Discretion.* Notwithstanding the achievement of any Performance Goal established under the Plan, the Committee has the discretion to reduce, but not increase, some or all of a Performance Award that would otherwise be paid to a Participant.
- (v) *Extraordinary Events.* At, or at any time after, the time an Award is granted, and to the extent permitted under Code Section 162(m) and the regulations thereunder without adversely affecting the treatment of the Award under the Performance-Based Exception, the Committee, in its sole discretion, may provide for the manner in which performance will be measured against the Performance Goals (or may adjust the Performance Goals) to reflect the

impact of specific corporate transactions, accounting or tax law changes and other extraordinary and nonrecurring events.

- (vi) *Performance-Based Exception.* With respect to any Award that is intended to satisfy the conditions for the Performance-Based Exception under Code Section 162(m): (A) the Committee shall interpret the Plan and this Section 7(d) in light of Code Section 162(m) and the regulations thereunder; (B) the Committee shall have no discretion to amend the Award in any way that would adversely affect the treatment of the Award under Code Section 162(m) and the regulations thereunder; and (C) such Award shall not be paid until the Committee shall first have certified that the Performance Goals have been achieved.
- (e) *Stock Awards.*
 - (i) *Grants.* Subject to the provisions of the Plan, Stock Awards consisting of shares of Common Stock may be granted pursuant to this Section 7(e) only to Eligible Persons who are consultants or advisors to the Company and may not be granted to employees of the Company (including Employee Directors). Non-Employee Directors are eligible to receive Stock Awards only pursuant to Section 8. Stock Awards may be granted either alone or in addition to other Awards made under the Plan.
 - (ii) *Terms and Conditions.* The shares of Common Stock subject to a Stock Award shall be immediately vested at the time of grant and nonforfeitable at all times but shall be subject to such other terms and conditions, including restrictions on transferability, as determined by the Committee in its discretion. The shares of Common Stock subject to a Stock Award shall be registered in the name of the Participant.

8. Awards to Non-Employee Directors.

- (a) *Sole Awards.* Notwithstanding anything in the other sections of the Plan to the contrary, Non-Employee Directors are eligible to receive only Awards authorized by this Section 8. The terms applicable under Section 7 for each such category of Award shall apply under this Section 8 to the extent not inconsistent with the provisions of this Section 8. The Committee retains the discretion to change the amount and terms of the Initial Grant or Annual Grant or the types of Awards subject to an Initial Grant or Annual Grant notwithstanding paragraphs (a), (b) and (c) of this Section 8.
- (b) *Initial Grants.* Each newly appointed Non-Employee Director shall, as soon as practicable after initially becoming a member of the Board, be granted an Award (the "Initial Grant") consisting of: (i) a Stock Award consisting of 1,000 shares of Common Stock subject to the transfer restrictions in Section 8(e)(iii) below; and (ii) an Annual Grant (as defined below), which for a Non-Employee Director elected after October 1 shall be pro-rated to reflect his or her date of election to the Board.
- (c) *Annual Grants.* Each Non-Employee Director shall receive, on October 1 (or on such other date as is determined by the Committee) of each year, an Award (the "Annual Grant") consisting of (i) a Stock Award consisting of the greatest number of whole shares determined by dividing \$50,000 by the Fair Market Value (as rounded up to the nearest quarter) on the grant date, with such shares subject to the transfer restrictions in Section 8(e)(iii), and (ii) Options, the number of which shall be determined by multiplying the number of shares of Common Stock awarded under Section 8(c)(i) hereof by four.
- (d) *Death, Total Disability and Retirement.* In the event of the death, Total Disability or Retirement of a Non-Employee Director prior to the granting of an Annual Grant in respect of the calendar year in which such event occurred, an Annual Grant may, in the discretion of the Committee, be granted in respect of such fiscal year to the retired or disabled Non-Employee Director or his or her estate. If any Non-Employee Director ceases to be a

member of the Board for any reason other than death, Total Disability or Retirement, his or her rights to any Award to be granted in respect of the fiscal year during which such cessation occurred will terminate unless the Committee determines otherwise.

(e) *Terms of Awards Granted to Non-Employee Directors.*

- (i) Each Option granted to a Non-Employee Director shall have an Option Exercise Price equal to the Fair Market Value (as rounded up to the nearest quarter) on the grant date.
- (ii) Subject to subparagraph (v) below, each Option granted to a Non-Employee Director shall vest (and become exercisable) on the third anniversary of the grant date. Each Option granted to a Non-Employee Director shall have a term of ten years.
- (iii) Shares of Common Stock subject to a Stock Award granted to a Non-Employee Director shall be immediately vested at the time of grant and nonforfeitable at all times. However, such shares of Common Stock may not be sold, assigned, transferred or otherwise disposed of, or mortgaged pledged or otherwise encumbered, until the date the Non-Employee Director's membership on the Board ceases (except that this transfer restriction shall not prohibit: (A) PepsiCo's retaining shares to satisfy required tax withholding under Section 12(e)(ii), and (B) intra-family transfers permitted by the Committee). In order to enforce the limitations imposed upon such shares of Common Stock, the Committee may (a) cause a legend or legends to be placed on any certificates evidencing such shares, and/or (b) cause "stop transfer" instructions to be issued, as it deems necessary or appropriate.
- (iv) Non-Employee Directors who hold shares of Common Stock pursuant to a Stock Award granted under this Section 8 shall have the right to receive dividends in cash or other property and shall have the right to vote such shares as the record owners thereof; provided that any securities of the Company that are distributed to a Non-Employee Director shall be subject to the same transfer restrictions that apply to such shares of Common Stock.
- (v) In the event a Non-Employee Director ceases to be a member of the Board prior to the vesting date of an Award of Options, then (A) if such cessation is the result of such Non-Employee Director's death, Total Disability or Retirement, such Award shall immediately vest and be exercisable, and (B) if such cessation is the result of an event other than death, Total Disability or Retirement, such unvested Award shall immediately terminate and expire.
- (vi) Options granted to a Non-Employee Director shall terminate and shall not be exercisable after he or she ceases to be a member of the Board, except that: (A) if such cessation occurs by reason of death, the Options then held by the Non-Employee Director may be exercised by his or her designated beneficiary (or, if none, his or her legal representative) until the expiration of such Options in accordance with the terms hereof; and (B) if such cessation occurs by reason of the Non-Employee Director's Total Disability or Retirement, the Options then held by the Non-Employee Director may be exercised by him or her until the expiration of such Options in accordance with the terms hereof.

(f) *Exercise of Options Granted to Non-Employee Directors.*

- (i) To exercise an Option, a Non-Employee Director must provide to PepsiCo (A) a written notice specifying the number of Options to be exercised and (B) to the extent applicable, any required payments due upon exercise.

- (ii) Non-Employee Directors may exercise Options under any of the following methods:
 - (A) Non-Employee Directors may exercise Options through a registered broker-dealer pursuant to cashless exercise procedures that are, from time to time, approved by the Committee. Proceeds from any such exercise shall be used to pay the exercise costs, which include the Option Exercise Price, statutory minimum applicable taxes, brokerage commissions and SEC fees. Any remaining proceeds from the sale shall be delivered to the Non-Employee Director in cash or stock, as specified by the Non-Employee Director.
 - (B) Non-Employee Directors may exercise Options through the tender of shares of Common Stock owned by the Non-Employee Director (or by delivering a certification or attestation of ownership of such shares) valued at their Fair Market Value on the date of exercise.
 - (C) Non-Employee Directors may exercise Options by paying to PepsiCo an amount in cash from his or her own funds equal to the Option Exercise Price and any applicable taxes required at exercise. A Non-Employee director shall become the owner of the shares of Common Stock subject to an Option only after the Option Exercise Price and the applicable taxes have been paid.
 - (D) Non-Employee Directors may exercise Options by any combination of (A), (B) or (C) above.

9. *Deferred Payments.*

Subject to the terms of the Plan, the Committee may determine that all or a portion of any Award to a Participant, whether it is to be paid in cash, shares of Common Stock or a combination thereof, shall be deferred or may, in its sole discretion, approve deferral elections made by Participants. Deferrals shall be for such periods and upon such terms as the Committee may determine in its sole discretion, which terms shall be designed to comply with Code Section 409A. Notwithstanding the foregoing, deferral of Option or SAR gains shall not be permitted under the Plan.

10. *Dilution and Other Adjustments.*

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, combination or exchange of shares or other change in corporate structure affecting any class of Common Stock, the Committee shall make such adjustments in the class and aggregate number of shares which may be delivered under the Plan as described in Section 5, the individual award maximums under Section 6, the class, number, and Option Exercise Price of outstanding Options, the class number and exercise price of outstanding SARs and the class and number of shares subject to any other Awards granted under the Plan (provided the number of shares of any class subject to any Award shall always be a whole number), as may be, and to such extent (if any), determined to be appropriate and equitable by the Committee, and any such adjustment may, in the sole discretion of the Committee, take the form of Options covering more than one class of Common Stock. Such adjustment shall be conclusive and binding for all purposes of the Plan.

11. *Change in Control.*

- (a) *Impact of Event.* Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control:
 - (i) If and to the extent that outstanding Awards under the Plan (A) are assumed by the successor corporation (or affiliate thereto) or (B) are replaced with equity awards that preserve the existing value of the Awards at the time of the Change in Control and provide for subsequent payout in accordance with a vesting schedule and Performance Goals, as applicable, that are the same or more favorable to the Participants than the vesting schedule and Performance

Goals applicable to the Awards, then all such Awards or such substitutes thereof shall remain outstanding and be governed by their respective terms and the provisions of the Plan subject to Section 11(a)(iv) below.

- (ii) If and to the extent that outstanding Awards under the Plan are not assumed or replaced in accordance with Section 11(a)(i) above, then upon the Change in Control the following treatment (referred to as "Change-in-Control Treatment") shall apply to such Awards: (A) outstanding Options and SARs shall immediately vest and become exercisable; (B) the restrictions and other conditions applicable to outstanding Restricted Shares, Restricted Stock Units and Stock Awards, including vesting requirements, shall immediately lapse; such Awards shall be free of all restrictions and fully vested; and, with respect to Restricted Stock Units, shall be payable immediately in accordance with their terms or, if later, as of the earliest permissible date under Code Section 409A; and (C) outstanding Performance Awards granted under the Plan shall immediately vest and shall become immediately payable in accordance with their terms as if 100% of the Performance Goals have been achieved.
- (iii) If and to the extent that outstanding Awards under the Plan are not assumed or replaced in accordance with Section 11(a)(i) above, then in connection with the application of the Change-in-Control Treatment set forth in Section 11(a)(ii) above, the Board may, in its sole discretion, provide for cancellation of such outstanding Awards at the time of the Change in Control in which case a payment of cash, property or a combination thereof shall be made to each such Participant upon the consummation of the Change in Control that is determined by the Board in its sole discretion and that is at least equal to the excess (if any) of the value of the consideration that would be received in such Change in Control by the holders of PepsiCo's securities relating to such Awards over the exercise or purchase price (if any) for such Awards.
- (iv) If and to the extent that (A) outstanding Awards are assumed or replaced in accordance with Section 11(a)(i) above and (B) a Participant's employment with, or performance of services for, the Company is terminated by the Company for any reasons other than Cause or by such Participant for Good Reason, in each case, within the two-year period commencing on the Change in Control, then, as of the date of such Participant's termination, the Change-in-Control Treatment set forth in Section 11(a)(ii) above shall apply to all assumed or replaced Awards of such Participant then outstanding.
- (v) Outstanding Options or SARs that are assumed or replaced in accordance with Section 11(a)(i) may be exercised by the Participant in accordance with the applicable terms and conditions of such Award as set forth in the applicable award agreement or elsewhere; provided, however, that Options or SARs that become exercisable in accordance with Section 11(a)(iv) may be exercised until the expiration of the original full term of such Option or SAR notwithstanding the other original terms and conditions of such Award.

(b) *Definitions.*

- (i) For purposes of this Section 11, "Change in Control" means the occurrence of any of the following events: (A) acquisition of 20% or more of the outstanding voting securities of PepsiCo by another entity or group; excluding, however, the following (1) any acquisition by PepsiCo or (2) any acquisition by an employee benefit plan or related trust sponsored or maintained by PepsiCo; (B) during any consecutive two-year period, persons who constitute the Board at the beginning of the period cease to constitute at least 50% of the Board (unless the election of each new Board member was approved by a majority of directors who began the two-year period); (C) PepsiCo shareholders approve a merger or consolidation of PepsiCo with another company, and PepsiCo is

not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of PepsiCo; (D) PepsiCo shareholders approve a plan of complete liquidation of PepsiCo or the sale or disposition of all or substantially all of PepsiCo's assets; or (E) any other event, circumstance, offer or proposal occurs or is made, which is intended to effect a change in the control of PepsiCo, and which results in the occurrence of one or more of the events set forth in clauses (A) through (D) of this Section 11(b)(i).

- (ii) For purposes of this Section 11, "Cause" means with respect to any Participant, unless otherwise provided in the applicable award agreement, (A) the Participant's willful misconduct that materially injures the Company; (B) the Participant's conviction of a felony or a plea of nolo contendere by Participant with respect to a felony; or (C) the Participant's continued failure to substantially perform his or her duties with the Company (other than by reason of the Participant's disability) after written demand by the Company that identifies the manner in which the Company believes that the Participant has not performed his or her duties. A termination for Cause must be communicated to the Participant by written notice that specifies the event or events claimed to provide a basis for termination for Cause.
- (iii) For purposes of this Section 11, "Good Reason" means with respect to any Participant, unless otherwise provided in the applicable award agreement, without the Participant's written consent, (A) the Company's requiring the Participant's principal place of employment to be based at any location in excess of thirty-five (35) miles from his or her primary place of employment as it existed immediately prior to the Change in Control except for reasonably required travel on the Company's business that is not greater than such travel requirements prior to the Change in Control; (B) a reduction in the Participant's base salary or wage rate or target annual or long-term cash incentive opportunities as in effect immediately prior to the Change in Control (other than an isolated, insubstantial and inadvertent failure that is promptly remedied by the Company upon notice from the Participant) or failure to provide compensation and benefits that are substantially similar in the aggregate to those provided for by the Company immediately prior to the Change in Control; or (C) a material reduction in the Participant's job responsibilities, position or duties with the Company as in effect immediately prior to the Change in Control. A termination for Good Reason must be communicated to the Company by written notice that specifies the event or events claimed to provide a basis for termination for Good Reason; provided that the Participant's written notice must be tendered within ninety (90) days of the occurrence of such event or events.

12. Miscellaneous Provisions.

- (a) *Misconduct.* Except as otherwise provided in agreements covering Awards hereunder, a Participant shall forfeit all rights in his or her outstanding Awards under the Plan, and all such outstanding Awards shall automatically terminate and lapse, if the Committee determines that such Participant has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, including without limitation, a violation of any Company code of conduct, (iii) engaged in unlawful trading in the securities of PepsiCo or of another company based on information gained as a result of that Participant's employment or other relationship with the Company, or (iv) committed a felony or other serious crime.

- (b) *Rights as Shareholder.* Except as otherwise provided herein, a Participant shall have no rights as a holder of Common Stock with respect to Awards hereunder, unless and until the shares of Common Stock have been registered to the Participant as the owner.
- (c) *No Loans.* No loans from the Company to Participants shall be permitted in connection with the Plan.
- (d) *Assignment or Transfer.* Except as otherwise provided under the Plan, no Award under the Plan or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution. The Committee may, in its discretion, provide that an Award (other than an ISO) is transferable without the payment of any consideration to a Participant's family member, whether directly or by means of a trust or otherwise, subject to such terms and conditions as the Committee may impose. For this purpose, "family member" has the meaning given to such term in the General Instructions to the Form S-8 registration statement under the Securities Act of 1933. All Awards under the Plan shall be exercisable, during the Participant's lifetime, only by the Participant or a person who is a permitted transferee pursuant to this Section 12(d). Once awarded, the shares of Common Stock (other than Restricted Shares) received by Participants may be freely transferred, assigned, pledged or otherwise subjected to lien, subject to: (i) the transfer restrictions in Sections 7(e)(ii) and 8(e)(iii) above; and (ii) the restrictions imposed by the Securities Act of 1933, Section 16 of the Exchange Act and PepsiCo's Insider Trading Policy, each as amended from time to time.
- (e) *Withholding Taxes.*
 - (i) PepsiCo shall have the right to deduct from all Awards paid in cash to a Participant any taxes required by law to be withheld with respect to such Awards. All statutory minimum applicable withholding taxes arising with respect to Awards paid in shares of Common Stock to a Participant shall be satisfied by PepsiCo retaining shares of Common Stock having a Fair Market Value on the date the tax is to be determined that is equal to the amount of such statutory minimum applicable withholding tax (rounded, if necessary, to the next highest whole number of shares of Common Stock); provided, however, that, subject to any restrictions or limitations that the Committee deems appropriate, a Participant may elect to satisfy such statutory minimum applicable withholding tax through cash or cash proceeds.
 - (ii) Federal income tax withholding at 25% (or such higher rate as may be legally required) and all other tax withholding that is legally required with respect to Stock Awards to a Non-Employee Director shall be satisfied by PepsiCo retaining a number of shares of Common Stock having a Fair Market Value, on the date such Common Stock is taxable to the Non-Employee Director, that is equal to the amount of such withholding (rounded, if necessary, to the next highest whole number of shares of Common Stock).
- (f) *Currency and Other Restrictions.* The obligations of the Company to make delivery of Awards in cash or Common Stock shall be subject to currency or other restrictions imposed by any governmental authority or regulatory body having jurisdiction over such Awards.
- (g) *No Rights to Awards.* Neither the Plan nor any action taken hereunder shall be construed as giving any person any right to be retained in the employ or service of the Company, and the Plan shall not interfere with or limit in any way the right of the Company to terminate any person's employment or service at any time. Except as set forth herein, no employee or other person shall have any claim or right to be granted an Award under the Plan. By accepting an Award, the Participant acknowledges and agrees that (i) the Award will be exclusively governed by the terms of the Plan, including the right reserved by the Company to amend or cancel the Plan at any time

without the Company incurring liability to the Participant (except, to the extent the terms of the Award so provide, for Awards already granted under the Plan), (ii) Awards are not a constituent part of salary and the Participant is not entitled, under the terms and conditions of employment, or by accepting or being granted Awards under the Plan to require Awards to be granted to him or her in the future under the Plan or any other plan, (iii) the value of Awards received under the Plan shall be excluded from the calculation of termination indemnities or other severance payments or benefits, and (iv) the Participant shall seek all necessary approval under, make all required notifications under, and comply with all laws, rules and regulations applicable to the ownership of Options and shares of Common Stock and the exercise of Options, including, without limitation, currency and exchange laws, rules and regulations.

- (h) *Beneficiary Designation.* To the extent allowed by the Committee, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named on a contingent or successive basis) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Unless the Committee determines otherwise, each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and shall be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.
- (i) *Costs and Expenses.* The cost and expenses of administering the Plan shall be borne by PepsiCo and not charged to any Award or to any Participant.
- (j) *Fractional Shares.* Fractional shares of Common Stock shall not be issued or transferred under an Award, but the Committee may direct that cash be paid in lieu of fractional shares or may round off fraction shares, in its discretion.
- (k) *Funding of Plan.* The Plan shall be unfunded and any benefits under the Plan shall represent an unsecured promise to pay by the Company. PepsiCo shall not be required to establish or fund any special or separate account or to make any other segregation of assets to assure the payment of any Award under the Plan and the existence of any such account or other segregation of assets shall be consistent with the "unfunded" status of the Plan.
- (l) *Indemnification.* Provisions for the indemnification of officers and directors of the Company in connection with the administration of the Plan shall be as set forth in PepsiCo's Certificate of Incorporation and Bylaws as in effect from time to time.
- (m) *Successors.* All obligations of PepsiCo under the Plan with respect to Awards granted hereunder shall be binding on any successor to PepsiCo, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of PepsiCo.
- (n) *Compliance with Code Section 409A.* The Plan is intended to satisfy the requirements of Code Section 409A and any regulations or guidance that may be adopted thereunder from time to time, including any transition relief available under applicable guidance related to Code Section 409A. Pursuant to Section 13(b), the Plan may be amended or interpreted by the Committee as it determines necessary or appropriate in accordance with Code Section 409A and to avoid a plan failure under Code Section 409A(a)(1).

13. Effective Date, Governing Law, Amendments and Termination.

- (a) *Effective Date.* The Plan was approved by the Board on February 2, 2007 and shall become effective on the date it is approved by PepsiCo's shareholders.

- (b) *Amendments.* The Committee or the Board may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards granted prior to the date of such termination or amendment without the consent of the affected Participant except to the extent that the Committee reasonably determines that such termination or amendment is necessary or appropriate to comply with applicable law (including the provisions of Code Section 409A and the regulations thereunder pertaining to the deferral of compensation) or the rules and regulations of any stock exchange on which Common Stock is listed or quoted. Notwithstanding the foregoing, unless PepsiCo's shareholders shall have first approved the amendment, no amendment of the Plan shall be effective if the amendment would (i) increase the maximum number of shares of Common Stock that may be delivered under the Plan or to any one individual (except to the extent such amendment is made pursuant to Section 10 hereof), (ii) extend the maximum period during which Awards may be granted under the Plan, (iii) add to the types of awards that can be made under the Plan, (iv) change the Performance Measures pursuant to which Performance Awards are earned, (v) modify the requirements as to eligibility for participation in the Plan, (vi) decrease the grant or exercise price of any Option or SAR to less than the Fair Market Value on the date of grant; or (vii) require shareholder approval pursuant to the Plan or applicable law or the rules of the principal securities exchange on which shares of Common Stock are traded in order to be effective.
- (c) *Governing Law.* All questions pertaining to the construction, interpretation, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of North Carolina without giving effect to conflict of laws principles.
- (d) *Termination.* No Awards shall be made under the Plan after the tenth anniversary of the date on which PepsiCo's shareholders approve the Plan.

PepsiCo at a Glance (\$ in Millions)

Frito-Lay North America



PepsiCo Beverages North America



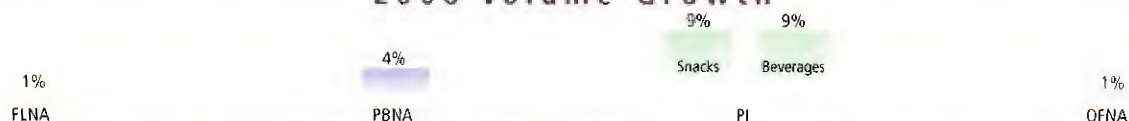
PepsiCo International



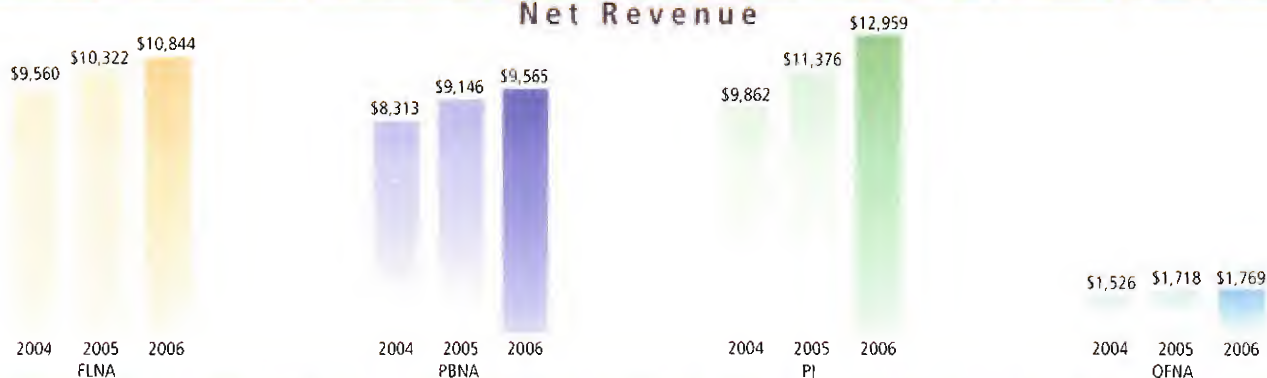
Quaker Foods North America



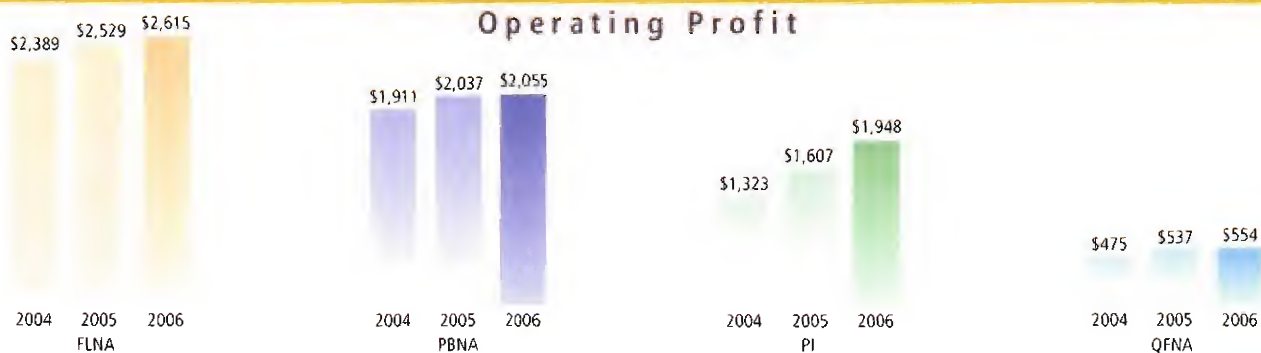
2006 Volume Growth



Net Revenue



Operating Profit



Dear Shareholders:

Generating healthy financial returns and making important strides in responsible corporate citizenship, PepsiCo delivered a very strong 2006:

- Volume grew 5.5%.
- Net revenue grew 8%.
- Division operating profit grew 7%.*
- Earnings per share grew 13%.*
- Total return to shareholders was 8%.
- Return on invested capital was 26%.*
- Cash flow from operations was \$6.1 billion and management operating cash flow was \$4.1 billion.**

Indra Nooyi
Chairman Elect and Chief Executive Officer

Steve Reinemund
Executive Chairman and Chairman of the Board

These financial results tell only part of the PepsiCo story. As we achieve success with profitable growth, we're continuously giving back to the communities we serve, delivering what we call *Performance with Purpose*.

This annual report shows just how we're achieving the balance between providing you with solid returns on your investments and working to create a defining corporation for the new millennium — one that strives to *do better by doing better*.

Importantly, PepsiCo's business performance in 2006 is consistent with very strong performance over the last several years and — we believe — evidence of our ability to continue delivering strong results going forward. Over the last five

years, your company has led the industry with over 8% top line growth, double-digit EPS growth and approximately \$26 billion in operating cash flow. During this period, we've returned approximately \$20 billion to you, our shareholders.

What allows us to deliver these kinds of consistent results? It's an ideal match of PepsiCo people, capabilities and great brands with opportunity. Specifically, this includes our *structural advantages*, *capability advantages* and our *unique people culture*. For example:

- We sit squarely in the sweet spot of the Food and Beverage space — convenience.
- We have a big global reach — with tremendous opportunity for continued growth.
- Our go-to-market systems provide us with a mosaic of distribution arms that reach everywhere we operate cost effectively and with great efficiency and speed — ensuring our products are always available.
- We have demonstrated that we have the strategic acuity to spot shifting consumer interests, such as the move to non-carbonated beverages and the increasing focus on health and wellness.
- We know how to build a brand's personality and leverage our mega-brands, not only into line extensions but also into entirely new platforms.
- We have a track record of success in acquiring attractive tuck-in businesses and then integrating them quickly and efficiently.
- Our people provide an overwhelming advantage. They are passionate about what they do and pride themselves on results. Add to this the diversity we cultivate and the personal ownership our associates take in the business, and you have a sense of our unique culture.

We, and all our associates across the globe, believe PepsiCo is delivering more than just financial performance. We are a

2006 Scorecard



* See page 82.

** See page 53.

company with an increasingly deep sense of awareness of the world around us and the needs of its inhabitants. We believe this is a company with a heart, and recognize the role leading companies like ours play in society. It inspires us to focus on delivering *Performance with Purpose* — something we intend to continue doing.

Human Sustainability

It's not about growing a business for the next quarter or the next year. It's about growing a business profitably for the long term.

We believe we can do this in ways directly related to our business, beginning with our products. We have a fundamental belief that humans need to be *nourished* in multiple dimensions — ranging from simple treats to healthier eats.

We call this *human sustainability*, and we're continuously transforming our portfolio of products to meet consumer needs. We've improved the nutritional profiles of our global, flagship brands by changing to healthier oils, reducing sugar and sodium content, and by expanding the range of products we offer. This includes products ranging from indulgences — or treats — to good-for-you products that offer functional benefits like hydration or heart health.

In fact, our products that can contribute to healthier lifestyles — what we call "Smart Spot" eligible products — represented over two-thirds of our growth in North America in 2006. These products meet authoritative nutrition statements set by the National Academy of Sciences and the U.S. Food and Drug Administration or provide other functional benefits. And we've set a goal of deriving 50% of all our U.S. revenues with Smart Spot eligible products by 2010.

We're supplementing our portfolio transformation with efforts to educate consumers about the importance of active lifestyles and nutritional balance. We've committed to helping them understand that, along with the calories they put in their bodies, they must ensure they're burning calories as well.

And we're proactively collaborating with policy makers to help consumers live healthier lives. In 2006, PepsiCo worked with the Clinton Foundation, the American Heart Association and its partners in the American Beverage Association to develop policies for selling beverages in U.S. schools, and followed up with a

A Very Special Thanks

In 2007, we celebrate a lifetime of leadership for a very prominent member of the PepsiCo family. Earning his place in PepsiCo history as a world-class Chairman and Chief Executive Officer, Steve Reinemund is leaving a legacy of growth through his work in transforming our portfolio to address health and wellness consumer needs, building a diverse and inclusive environment for our people and driving the company's Power of One capabilities. And as he's done each of these, he's reinforced a culture committed to driving business results the right way: connected to clearly articulated values. It was under Steve's leadership that PepsiCo defined our Values, so we now have a common commitment and understanding of the principles that guide us. He's been an excellent partner and superb mentor, as well as a great friend. We will all miss him when he steps down as Chairman in May, along with three other directors who are retiring. Each has made a lasting contribution to our success.

Steve Reinemund

Steve began his career with PepsiCo in 1984 at Pizza Hut, which was then part of our restaurant division. He served as Chief Executive Officer there before going on to lead Frito-Lay North America and then our worldwide snack operations. He moved to headquarters as PepsiCo's President and Chief Operating Officer in 1999, and then served as Chairman and Chief Executive Officer from 2001 to 2006. During this time, he increased PepsiCo revenues by more than \$11 billion, and net income and earnings per share more than doubled. In the process, the annual dividend doubled and the company's market capitalization surpassed \$100 billion.

Board of Directors

Retiring this year are three members of the Board of Directors who have been with us a total of 46 years combined: Bob Allen, John Akers and Frank Thomas. Bob served on our Board for 17 years, and since 2000 he has been Presiding Director. He set a high standard for this critical new role with his firm and steady direction. John joined our Board 16 years ago and was Chair of our Compensation Committee and a continuous source of sage advice. Frank provided 13 years of service and was a chief contributor to our business strategies and people planning, and was an invaluable source of counsel to all of us. Each of these individuals has provided excellent counsel and perspective and has given us the full value of his experience. We shall miss them greatly. We're pleased to have the depth of experience of Sharon Rockefeller, who will become Presiding Director.

In addition, we announced in February that Cynthia Trudell left our Board to become PepsiCo's Senior Vice President and Chief Personnel Officer, a role she has already assumed. We thank her for her years of service on the Board and look forward to her continued contributions to PepsiCo as she uses her experience to drive our business growth while motivating, developing and caring for the employees who make our businesses successful.




* See page 82.

** See page 53.

similar agreement for snacks in U.S. schools. In fact, PepsiCo is the only company to have participated in the development of both policies.

We are introducing health and wellness programs in markets around the world. And in countries such as Mexico, the United Kingdom and Brazil, we've established advisory boards to help guide our efforts.

No matter where we are, the safety and integrity of our products is our single highest priority. It's our duty as a responsible company. People buy our brands because they know they can count on consistent quality — every time. We follow very rigorous standards of safety and quality. Our standards are equally rigorous in New York, London and Beijing as they are wherever else we operate. We stand behind each and every product we sell.

Environmental Sustainability

The second way PepsiCo can give back to the global community it serves is through its work with *environmental sustainability*. By fully understanding our environmental impact, we can find ways to conserve and *replenish* the planet's natural resources. In doing what's right for the business, we can do what's right for the global community.

PepsiCo has focused its environmental sustainability efforts on water, energy and packaging — areas where we can make the biggest impact. Reducing waste water, establishing rainwater collection capabilities, using more recyclable materials in our packaging and using alternative energy sources are just a few of the priorities we've set for ourselves. Success with each of them translates into financial benefits for the business.

Our accountability as a global corporate citizen extends to other social issues as well. We've established programs to help our associates and communities combat HIV/AIDS. Our associates are volunteering in our communities, and PepsiCo continually responds to calls for humanitarian aid.

Talent Sustainability

The third area of sustainability that we've chosen to focus on is *talent sustainability* — reflecting our belief that people hold the key to PepsiCo's success. Our company is known to many as an academy company, a place where people grow and business leaders develop. We are also committed to building a work environment where all of our associates can achieve a better quality of life and know that, as a business, we *cherish* them.

The transitions we announced this year, starting with the CEO and including several other senior executive roles, show that we are not only committed to developing and retaining deep bench strength, but that we're equally passionate about ensuring seamless transitions. And while we certainly weren't looking for external recognition, *BusinessWeek* bestowed its 2006 "smoothest handover" honors to PepsiCo, saying, "...the transition in October from Steven S Reinemund to Indra K. Nooyi at the \$33 billion PepsiCo was noticeably angst-free."

Whether it's managing transitions or running the business day-to-day, PepsiCo's culture is renowned for its "can-do" spirit, something we consider part of our DNA. Look no further than the marketplace challenges of any year to see our level of commitment to getting the job done. In 2006, whether it was skyrocketing fruit costs, or ever-increasing competitive activity in categories or markets across the globe, our people proved they're among the world's best.

Our focus on people has never been more critical; the global competition for talent intensifies each year, and the companies that win will be those that provide the most opportunity for personal and professional growth.

We firmly believe that PepsiCo's commitment to diversity and inclusion is creating that kind of environment. To attract and retain the best and brightest, we're working harder than ever to ensure our culture grows in its inclusive nature — that it becomes known as a premier place to work because every associate can bring his or her whole self to work. When that happens, we unleash the power of our people on innovative solutions that will grow your company.

Looking ahead, our work plan is clear: we have a mandate to deliver *Performance with Purpose*. We're well positioned to deliver financial performance, consistent with our guidance, and to do it with the goals of *nourishing* consumers, *replenishing* the environment in which we operate and *cherishing* our people. Our capabilities and strategies to deliver on this priority are highlighted in the pages that follow.

While we have much more to do, we're making progress on delivering on our commitment to Purpose and are proud to share details with you in this publication. As a result of our efforts, the Dow Jones Sustainability North American Index — an investment fund comprised of North American companies that excel in managing economic, environmental and social results — added PepsiCo to its list in 2006.

Our True North – Our Values

Of course, guiding our people and our culture is a set of values that helps ensure we achieve all results with integrity — the right way. We want PepsiCo to continue to be viewed as a high-integrity company, and we recognize and reward leaders who deliver results in ways that are consistent with our True North — our Values.

Since PepsiCo was formed in 1965, each of the company's leaders — beginning with Don Kendall, and including Wayne Calloway and Roger Enrico — has been passionately committed to operating a business with integrity, one that delivers strong, sustainable financial returns.

As we have co-authored PepsiCo's strategy over the last several years, and conclude our own CEO transition, above all we share an equally passionate commitment to our Values and to running a business that does better by doing better, achieving financial results while addressing environmental and social needs.

It's a legacy we both intend to leave. And we believe there's no better, more honorable, or more strategic way to grow your company.



Steve Reinemund
Executive Chairman and
Chairman of the Board



Indra Nooyi
Chairman Elect and
Chief Executive Officer

Questions & Answers

Our Chairman and President & Chief Executive Officer Perspective

The questions below reflect key questions shareholders often ask about our businesses, and are followed by joint responses from our Chairman, Steve Reinemund, and our President and Chief Executive Officer, Indra Nooyi.

Q: PepsiCo's product categories and their impact on health continues to capture media, consumer and regulatory focus. How is PepsiCo's portfolio faring in this environment?

A: As the transformation of PepsiCo's portfolio continues, we're able to add more choices for consumers to meet their needs for products that can contribute to healthier lifestyles, and we're proud of each and every choice we offer.

Our efforts are galvanized by three imperatives: continue making our fun-for-you products more nutritious, develop new products that address the needs of the entire food pyramid, and try to ensure consumers never have to trade off nutrition and taste.

The range of product choices we offer grows each year, as we develop or acquire new products or platforms that range from indulgent to good-for-you. At the same time, we're improving the nutritional profiles of our larger, core brands. For example, changing cooking oils to sunflower oil for both Lay's and Ruffles potato chips at FLNA and Walkers crisps in the United Kingdom reduces the saturated fat in these products without sacrificing taste. And we're working on developing new sweeteners and adding more nutritious ingredients to our products — such as fiber to foods and beverages and omega-3 fatty acids to juices.

Our portfolio of more nutritious choices is working well in this environment, evidenced by over two-thirds of our North America top line growth in 2006 being driven by products that are PepsiCo Smart Spot eligible — meaning they meet authoritative nutritional statements developed by the National Academy of Sciences or the U.S. Food and Drug Administration.

Q: What, specifically, is PepsiCo doing to address regulatory pressures relating to health concerns across the globe?

A: On the regulatory and policy side, we're firm believers in engaging a range of public and private experts to come to workable solutions on such things as how and where our products are sold and marketed. We're actively engaged with policy and thought leaders, as well as food and beverage industry leaders, to reach decisions on steps we can

take to support consumers in their quest for healthier lifestyles. This includes insights from PepsiCo's Blue Ribbon Advisory Board, a group of leading health and wellness experts and third-party advisors from across the globe, as well as our Ethnic Advisory Boards who have provided insights relating to multi-cultural consumers.

Most recently, PepsiCo's work in the United States with the Clinton Foundation, the American Heart Association and the beverage industry, are examples of working proactively to set policies that put the right kinds of products in the right locations — in this case, schools. We're working in our international markets in much the same way.

An advantaged portfolio of good- and better-for-you products — products that are Smart Spot eligible — has provided, and will continue to provide, growth opportunities at what we call the intersection of business and public interests.

Q: How are you approaching innovation as a means to growth?

A: Innovation demands that we constantly look around the next corner to ensure we're providing products that our consumers and retail customers want. We have a relentless focus on innovation, as new products consistently deliver 15% to 20% of our total growth. In 2006 alone, our North American businesses introduced new products that totaled greater than \$1 billion in retail sales.

More strategically said, we're focused on game-changing innovation. Clearly, we need to keep our existing big brands fresh while developing products and venturing into new categories.

Through a disciplined approach to innovation, we've developed a very strong pipeline for 2007 and beyond, including new products like Flat Earth vegetable and fruit crisps from Frito-Lay, and new beverage entries such as Izze, a sparkling beverage made with 70% fruit juice, and Naked Juice, a line of all natural juices and juice smoothies, acquired in January 2007. And we'll expand on our successes, such as introducing Baked Walkers crisps in the United Kingdom.

As the lifeblood of any successful consumer products company, we expect innovation will continue to be a key tool for growth at PepsiCo going forward.



U.S. Category Leaders

#1
Potato
Chips



#1
Tortilla
Chips



#1
Corn Chips



#1
Extruded
Snack



#1
Multigrain
Snack



#2
Pretzels



Q: How are you addressing rising input costs in your businesses?

A: Structural inflation is a reality we believe will persist over the next few years. Agricultural commodities, energy and certain metals are in a period of protracted inflation that's unlikely to moderate until supply catches up.

Fortunately, over the years we've demonstrated the resilience of the PepsiCo portfolio to navigate through these headwinds successfully. And we are confident we will find innovative solutions to cover rising input costs. It will mean pulling all available levers to address inflation, as we've always done, such as finding new productivity, strategically hedging our input costs, and executing prudent and judicious pricing.

Q: How are you addressing the carbonated soft drink (CSD) category decline in North America?

A: Rejuvenating the CSD category requires us to deliver new products, new packaging and new benefits to re-engage consumers. 2007 has one of the strongest line-ups of CSD innovation we've had in many years. In essence, we plan to build a new category for us of "sparkling" beverages.

Whether it's through Izzie sparkling beverages, our new Jazz line, increased distribution of Pepsi Max throughout our system, new "choreography" packaging for Pepsi, or other new product and packaging news for Diet Pepsi, Mountain Dew and Sierra Mist, we believe we've got an impressive lineup ready for the marketplace. And we're supporting our new products as we continue to support our established core brands.

Looking ahead, we have increased our investment in truly breakthrough innovations to come, like new sweeteners that we believe hold the power to restoring CSD category growth.

Q: You have had good success promoting senior executives from within the company. What are you doing to ensure you maintain a strong bench and good succession planning?

A: We announced a number of senior executive changes this year, ranging from CEO to senior executive talent of our operating divisions. Because of the deep bench strength, we were able to provide opportunities to current PepsiCo executives — ensuring smooth transitions and tapping into literally hundreds of years' worth of experience within the company.

If anything, this series of moves underscores the importance of continuously building bench strength in our management group. We continue to place a high priority on sustaining our pool of executive talent, and we clearly understand that in the global competition for talent our people planning processes must be world class.

Q: How will Indra Nooyi's appointment to CEO change PepsiCo's strategic focus or priorities?

A: Our transition of the CEO role is as seamless a transition as any PepsiCo has ever done, largely reflecting the fact that we have co-authored the strategies the company is pursuing.

There are no major new strategies that have been put into place since the transition took effect in October of 2006, and we continue to aggressively pursue those strategies that have been driving the company's growth.

Q: How will PepsiCo's work with diversity and inclusion, and its work with corporate social responsibility and corporate governance evolve under new leadership?

A: Our commitment to diversity and inclusion as a means to drive our growth remains steadfast. We continue to see the impact of our efforts in our business results, as consumer product offerings, promotions and customer programming benefit from the diverse and inclusive workforce and environment we're building.

Our focus on corporate responsibility has always been strong and will even be stronger as we contribute to societal growth and help address societal problems. Some would say we have a moral and social obligation. Others would say it's simply good business. Either way, we have a major role to play.

Similarly for corporate governance, we continue to find ways to strengthen our approach, our tools and our reporting in the name of transparency for our shareholders and the range of constituents who track our business. For example, in 2006, PepsiCo participated in a pilot program at the SEC to test a new electronic filing system.

These kinds of priorities, which tie directly to our commitment to responsible corporate citizenship, will remain front and center.

Q: Where is PepsiCo in its investment in business process transformation, and specifically its SAP implementation?

A: Business Process Transformation (BPT) is a multi-year transformation effort to simplify and synchronize our business processes and tools into one common platform.

In 2006, we began implementing SAP. We streamlined our indirect procurement system across our U.S. divisions, and for Quaker, Tropicana and Gatorade, we also streamlined customer orders, implemented a more efficient system for assessing and tracking capital expenditures and advertising and marketing spending, and provided common demand forecasting capability.

The project has an attractive business case including both IT cost savings and operating productivity. Additionally, we expect benefits from increased business information.

Q: International has been a big contributor to PepsiCo's growth over the past few years. How do you plan to sustain this growth?

A: PepsiCo International continues to be the growth engine for the company — delivering on our expectations to grow at about twice the rate of our North American businesses. Growth internationally across a wide range of markets is strong.

We believe the strong growth achieved by our PepsiCo International business in 2006 reflects the work of a world-class management team, years of investment, and the implementation of a deliberate strategy to create scale in key international markets that will deliver profitable growth.

The portfolio of international markets continues to broaden and strengthen as we deliver exciting new products, tailored to local tastes, to consumers in approximately 200 countries. And in developing and emerging markets in particular, growth in per capita GDP levels continues to generate increased demand for our products.

Q: PepsiCo made a number of acquisitions in 2006 — both in North America and internationally. How is the integration of these businesses going? And what kinds of mergers and acquisitions activity can we expect to see going forward?

A: Our North American acquisitions within the last year included Stacy's bagel and pita chips, Izze carbonated beverages and Naked

Juice fruit beverages (acquired January 2, 2007). Each acquisition gives us a new opportunity for growth, whether through new product categories or greater reach into emerging retail channels.

Internationally, we completed the acquisitions of Duyvis nuts in the Netherlands and Star Foods snacks in Poland, as well as Bluebird snacks in New Zealand in early 2007. Here again, each provides opportunity for growth through new geographies and new product lines internationally.

Before any acquisition is made, we apply a disciplined approach to evaluating returns on the investment within a reasonable period and focus on ensuring these businesses add profitable growth to PepsiCo. We feel very good about these acquisitions, and their integration is proceeding well.

Going forward, you can expect us to continue acting on our stated strategy of smaller, tuck-in acquisitions as a means to help us grow.

Q: What's the next big Power of One frontier?

A: Our Power of One initiatives — those directed at accelerating growth for PepsiCo and our retailers through the power of the entire PepsiCo portfolio — are most definitely moving to a new level.

In 2006, we conducted "Innovation Summits" with our customers to share a holistic view of how shopping and eating habits are fragmenting. Using the insights from these summits, we've worked with our retail partners and tailored our product offerings — by account — to maximize the potential of our categories and boost performance and results.

But our partnerships with customers go beyond top-line driving initiatives. We've expanded it to include end-to-end supply chain efficiencies. We are refreshing our selling and merchandising activities and critically reviewing all touch points with our customers to eliminate inefficiencies like out-of-stocks and reduce "pain points," if any. This initiative extends beyond PepsiCo to include our bottling partners — members of the extended PepsiCo family who work hand in hand with us on all of our initiatives.

U.S. Category Leaders

#1
Hot Cereal



#1
Grits



#1
Rice Side Dish



#1
Brand
Pancake Syrup



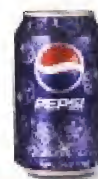
#2
Pancake Mix





Superior performance starts with a wide selection of powerful brands and the capability to build more of them.

Performance



PepsiCo has a history of delivering strong financial performance. We strive to increase revenues, market share, volume, profits and earnings per share, while reducing costs and improving productivity. This, in turn, leads to strong returns for our shareholders. Our success in 2006 made PepsiCo the second-largest food and beverage company in the world. We believe our performance is the result of our unique competitive strengths: our structural and capability advantages, supported by a culture that is uniquely our own.

Our Structural Advantages

Our structural advantages reflect a presence in convenience categories that is both wide and deep — with global operations that reach approximately 200 snack and beverage markets and an unmatched portfolio of leading brands. Combined with our flexible, multiple go-to-market systems, these structural advantages provide us with a solid base for growth.

Convenience

As consumers' lives become more time-starved, demand for products that offer convenience continues to grow. This "sweet spot" of convenience features categories that have been outgrowing the overall food and beverage sector over the past several years.

Our innovation pipeline is being stoked to leverage our growing presence in these categories. Products such as Quaker Oatmeal-to-Go bars mean more people can enjoy a heart-healthy breakfast. With Tropicana FruitWise, a line of fruit strips and bars made from real fruit and

juice, we offer consumers a delicious and portable way to eat one to two servings of fruit per item. Starting in 2007, consumers can choose our breakthrough line of Flat Earth fruit and vegetable crisps as a convenient snack option that provides a half serving of fruits or vegetables per ounce.

Our growing beverage portfolio offers consumers choices from regular and diet carbonated soft drinks to ready-to-drink teas and coffee, waters, sports drinks, energy drinks, and juices and juice drinks — all in a variety of sizes for home or on-the-go enjoyment.

Global Operations

We are the largest savory snack food business and the largest sports drink producer in the world. Our size gives us distinct advantages. No matter where consumers live or travel in the world, we're working hard to ensure our brands are available. Our reach provides a competitive edge when introducing new products and distributing our brands. Retailers are eager to stock our products because they know our brands provide quality, variety, great taste and move quickly off the shelves.

We have U.S. category leadership positions — either first or second position — in 18 categories of snacks, beverages and foods. In beverages — including carbonated plus non-carbonated — we have the leading market share in the United States.

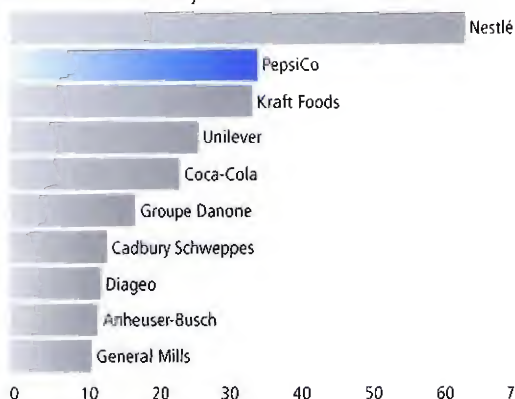
PepsiCo International has delivered consistent growth over the last three years, with 18 businesses now generating revenues of at least \$200 million. We have a solid share of snacks in major markets such as Mexico, the United Kingdom, Brazil, Australia, India and Russia. In developing markets, such as China, Pepsi

**PepsiCo
estimated
worldwide
retail sales:
\$92 billion.***

*Includes estimated retail sales of all PepsiCo products, including those sold by our partners and franchised bottlers

Top Branded Food and Beverage Manufacturers

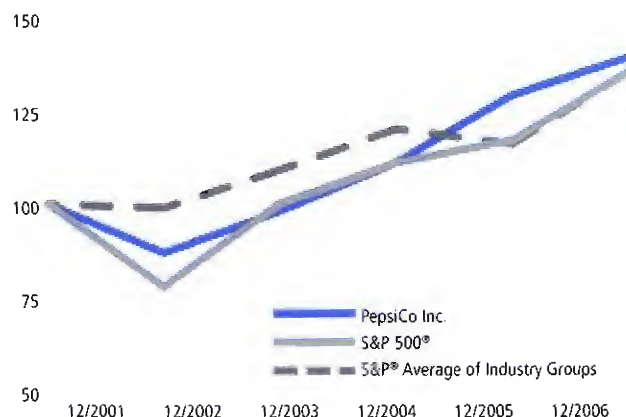
\$ Net Sales in Billions
Food and beverage sales, excludes food ingredients, pet and agricultural products.
Includes fruit and dairy.



PepsiCo is the world's second largest food and beverage company.

Cumulative Total Shareholder Return

% Return on PepsiCo stock investment, the S&P 500 and the S&P Average of Industry Groups.



Shareholders purchasing PepsiCo stock at the end of 2001 and holding it to the end of 2006 received a higher cumulative return than the returns of the S&P 500 and our industry group.



is the leading soft drink, and we have also introduced many of our popular snacks such as Lay's potato chips.

And we're just getting started. We're establishing our big, muscular brands in new markets every year. We now offer Gatorade sports drinks in 42 markets, and we are expanding into more. We sell Tropicana juice and juice drinks in 27 markets, and we see near-term opportunity to introduce these products into many other markets. We also offer Lipton tea brands in many markets, with great potential to further expand.

As we achieve scale in global markets, we are introducing our Power of One initiatives — which integrate business planning, merchandising and promotions and focused customer teams across all our brands. For example, in Asia, Brazil, Russia and Mexico, we are working with our retail customers to create promotions and improve productivity across our portfolio.

Big Brands

We have 17 mega-brands, each of which delivers retail sales of at least \$1 billion. Five of them generate retail sales of more than \$5 billion each. These brands are big — and we continually foster their growth. Importantly, we have another 16 brands that generate retail sales between \$250 million and \$1 billion — and another 14 brands that generate sales between \$100 and \$250 million. Our brands' size and popularity give us the confidence to introduce new flavors and launch entirely new varieties with trusted brand names that deliver consistently great taste.

Distribution Systems

Our delivery — or “go-to-market” — systems provide a strong competitive advantage. With optimum efficiency, we can deliver to retailers and other customers who sell our products, virtually wherever they are and however they want.

We offer consumers an increasingly wide choice of products for every occasion.



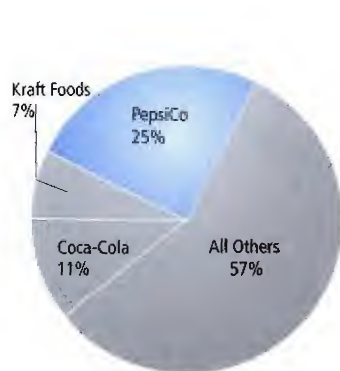
Our most powerful distribution system is direct-store-delivery (DSD), where PepsiCo associates deliver our products to stores and place them on the shelves. Direct-store-delivery allows us to create maximum appeal and visibility for our brands and

support in-store promotions. DSD works well for popular products we restock often, because it allows us to distribute new products quickly.

Our DSD system reaches hundreds of thousands of retail outlets this way, from neighborhood convenience

U.S. Convenient Food and Beverage Sales

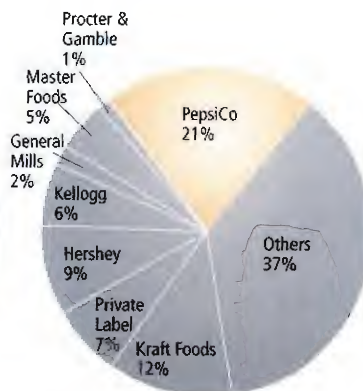
% Total Dollar Sales Snacks and Beverages



PepsiCo is the leading convenient food and beverage company in the United States.

U.S. Convenient Foods

% Retail Sales in Measured Channels. Includes chips, pretzels, ready-to-eat popcorn, crackers, dips, snack nuts/seeds, meat snacks, bars, cookies, candy, sweet and other snacks.



Frito-Lay is the leading convenient snack food business in measured channels in the United States.

PepsiCo International Beverage Volume Growth by Region

% System Volume by Region



PepsiCo International Snack Volume Growth by Region

% System Volume by Region



PepsiCo International beverages and snacks generated volume growth across all regions.



stores to large-format super-markets. The Frito-Lay North America team services nearly 440,000 retail outlets weekly.

We handle less perishable products — including Gatorade sports drinks, shelf-stable Tropicana juices and Quaker products — through our warehouse distribution system. We deliver Tropicana Pure Premium juices using either a refrigerated warehouse system or chilled direct-store-delivery system.

The success of these systems can be measured in many ways. For example, seven of the 15 largest brands sold in U.S. supermarkets are PepsiCo brands. No other company can make this claim.

Our distribution systems are part of one of the world's most powerful supply chains. Worldwide, we own or lease nearly 300 factories, operate more than 3,000 distribution centers, and employ nearly 70,000 salespeople working to ensure our products are available, merchandised and sold in engaging ways every hour of every day.

Our Capability Advantages

Our capability advantages include the strategic acuity necessary to anticipate consumer needs and innovate to fulfill them. Early on, we anticipated consumers moving from carbonated soft drinks to non-carbonated beverages, and we broadened our beverage portfolio to capture new growth in the non-carbonated segment. Similarly, we were among the first food and beverage companies to anticipate increased consumer interest in health and wellness and to recognize that we could help consumers live healthier lifestyles. Along with knowing our customers, we know our brands and how to build and market them. Add to this our demonstrated ability to pinpoint, acquire and integrate businesses — both big and small — and we believe our capability advantages will continue contributing to our strong performance.

Strategic Acuity — Move to Non-Carbonated Beverages

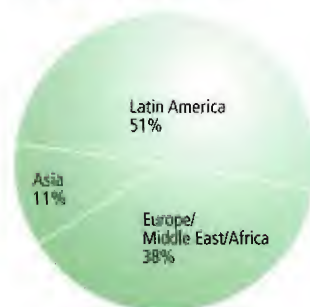
Carbonated beverages remain the most popular beverage category, with some 95% of U.S. households purchasing them. However, non-carbonated beverages represent a fast-growing category — a place where consumers are migrating. Today, in the United States and Canada, non-carbonated beverages, which are 38% of our volume, generate 69% of our revenue.

We recognized the need to broaden our portfolio early on and moved to extend our presence in non-carbonated beverages in 1992, when we formed a partnership with Thomas J. Lipton Co. to sell ready-to-drink tea brands. In 1994, we introduced Aquafina bottled water, and we also began a strategic partnership with Starbucks to market ready-to-drink coffee. We acquired Tropicana in 1998 and we expanded the Dole brand. We added SoBe, the producer of several varieties of tea and energy drinks, in 2001. Active thirst leaders, Gatorade Thirst Quencher sports drinks and Propel Fitness Water, became a part of our beverage business when we merged with Quaker in 2001. In 2006, we announced our alliance with Ocean Spray to market, bottle and distribute single-serve cranberry juice products and other product innovations.

Now we've defined a new category within our beverage portfolio — sparkling

PepsiCo International Snack Volume

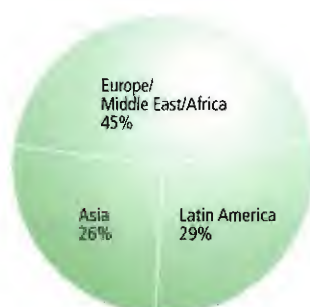
% System Volume by Region



PepsiCo has the largest snack business in the world.

PepsiCo International Beverage Volume

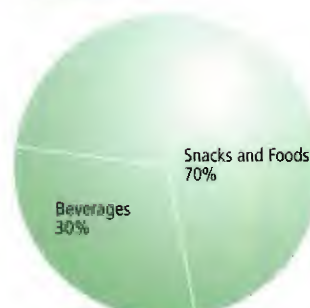
% System Volume by Region
Includes Pepsi-Cola, 7UP, Gatorade, Tropicana and other beverages.



Our beverage portfolio is well-positioned to take advantage of rising consumption in developing markets.

PepsiCo International Net Revenues

% Net Revenues



The major share of PepsiCo International revenues are generated by snacks and foods.



Gatorade Thirst Quencher is among our biggest brands and is being introduced in markets around the globe



beverages — and we added a premium brand to help us capture the growth: Izze Beverage Co. Acquired in 2006, Izze is a maker of all-natural sparkling fruit juices.

To extend our lead in non-carbonated beverages, we recently completed the acquisition of Naked Juice, a premium juice producer in the United States whose portfolio includes fruit juices and smoothies made without added sugars or preservatives.

Internationally, we have a variety of non-carbonated products including Tropicana, Gatorade and Lipton products, plus local juices such as Copella fruit juices and PJ Smoothies in the United Kingdom, and Punica, a leading German maker of fruit juices and juice drinks, acquired in 2005. A huge

opportunity awaits us in the world of non-carbonated beverages, as we currently account for less than 2% of an international non-carbonated beverage industry that we estimate to be about \$70 billion and growing.

Strategic Acuity — Health and Wellness

Providing consumers with choices has long been a part of our mindset. We introduced Diet Pepsi in 1964 and Reduced Fat Ruffles in the mid 80s. We have historically supported active lifestyles as well. Throughout the world, PepsiCo is a frequent sponsor of sports and active lifestyles through our marketing and our charitable donations.

Our increasing commitment to health and wellness is reflected in the transformation of our portfolio, such as through our acquisitions of Tropicana and Quaker. That

PepsiCo offers a variety of products that are delicious and nutritious.



commitment is behind our creation of a Blue Ribbon Health and Wellness Advisory Board, a group that provides expert advice on a variety of initiatives including new products, nutrition news and exercise programs. And it has driven our work to improve the nutritional profile of our existing product lines. In 2003, long before concerns about trans fats became the subject of mainstream media, PepsiCo removed trans fats from Doritos, Cheetos and Tostitos in the United States and Canada, by converting to corn oil — a vegetable oil high in good fats, mono- and polyunsaturated fatty acids. In 2006, we changed the oils in our Lay's and Ruffles brand potato chips in the United States and internationally in Walkers crisps, moving to sunflower oil, which is lower in saturated fat.

We are pioneers in offering consumers smart choices. In 2004, we introduced the Smart Spot symbol in the United States, a first-of-its-kind designation that helps consumers identify PepsiCo products that can contribute to healthier lifestyles. Products with the Smart Spot symbol meet nutrition criteria based on authoritative statements from the U.S. Food and Drug Administration and the National Academy of Sciences or provide other functional benefits. More than 40% of our revenues in the United States and Canada come from products that are Smart Spot eligible.



Our goal is to make our products available wherever there are hungry or thirsty people.



We have a growing portfolio of brands marketed internationally that provide a clear nutrition or health benefit — what we call “Good for You.” In Mexico, for example, we are pioneering new technology to help preserve healthy nutrients in our products. A current example is a baked potato stick called Nutritas, which includes vegetables and is produced by microwave cooking, steaming and slow baking. We’ve introduced baked snacks in Mexico and the United Kingdom and will continue to offer more choices across the world.

Throughout 2006, we continued adding products that fit into healthier lifestyles. At the start of the year, we acquired Stacy’s Pita Chip Company, a U.S.-based premium natural-snacks company. In the water category,

we introduced SoBe Life Water, a line of vitamin-enhanced water beverages. At Frito-Lay, we launched Tostitos Multigrain to bring wholesome grains to one of America’s favorite tortilla chip brands, and we introduced Baked! Cheetos and Doritos snacks in our line of 100-Calorie Mini Bites, to take the guesswork out of portion control. We introduced whole grain side dishes as part of our Rice-A-Roni brand. We are addressing the needs of serious athletes as well, with research-proven performance beverages like Gatorade Endurance Formula. And this momentum has continued into 2007, with the introduction of Gatorade AM Thirst Quencher, with flavors that appeal to morning exercisers.

Brand Building

Brand building is about extending a brand’s image. And we are adept at connecting local preferences to our global brands, resulting in overall growth.

Take Lay’s as an example: we’ve expanded it worldwide, tailoring it to local palates. We start with the well-known “banner sun” brand, and we cultivate the brand across our international markets — capitalizing on iconic names in their own right like Walkers in the United Kingdom, Sabritas in Mexico, and Matutano in Spain, among others.

Then we extend the brand with flavors and seasonings geared to local tastes — chilies in Latin America, beef and ketchup in Europe, and prawn in Asia, for example. Next, we branch into entirely new vari-

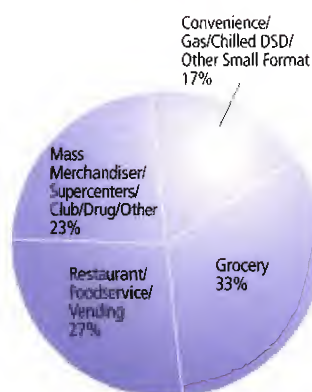
ations, such as Lay’s Artesanas and Lay’s Mediterraneas made with olive oil. We offer different kinds of chips, like hard-bite kettle style chips and, more recently, natural and organic varieties.

We apply the same process to our other snack and beverage brands. The room for growth is huge.

Recent examples of our brand building prowess from our beverage portfolio include our 2006 U.S. introduction of Jazz from Diet Pepsi, a low-calorie, indulgent cola available in two flavors: Black Cherry French Vanilla and Strawberries & Cream. We launched Pepsi Limón in Peru, and in Argentina we introduce 7UP H2OH!, a drink that bridges carbonated water drinks with flavored water. In the United States,

U.S. PepsiCo Beverage Distribution Channels

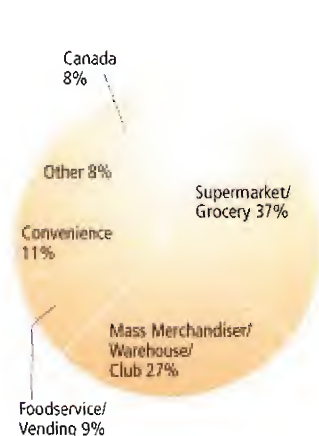
% Volume



PepsiCo beverages are distributed by a powerful go-to-market system that includes company-owned operations, independently-owned franchised bottlers and warehouse delivery systems.

Frito-Lay North America Distribution Channels

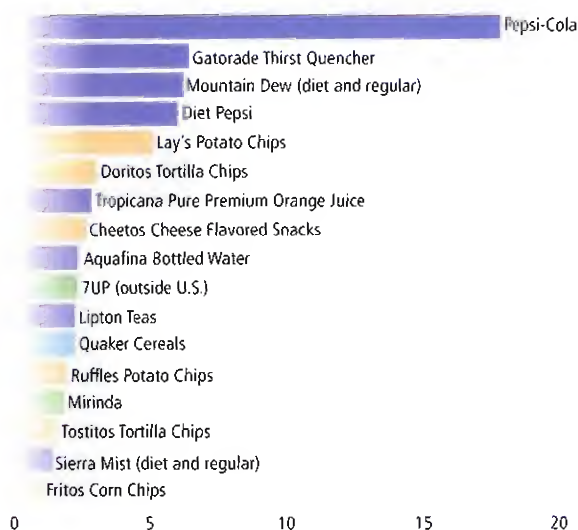
% Volume



Frito-Lay North America distributes to nearly 440,000 retail outlets each week.

Largest PepsiCo Brands

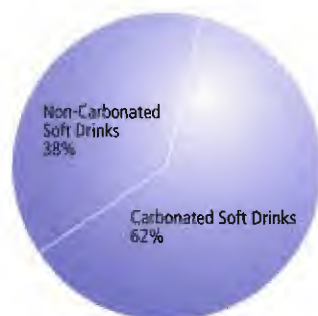
Estimated Worldwide Retail Sales \$ in Billions



PepsiCo has 17 mega-brands that generate \$1 billion or more each in annual retail sales.

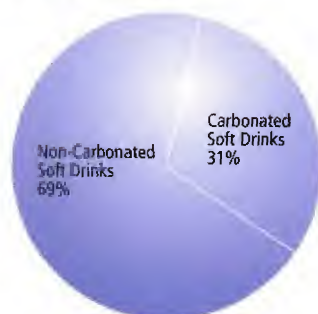


PepsiCo Beverages North America Carbonated Soft Drink Volume vs. Non-Carbonated Soft Drink Volume



Carbonated soft drinks generate the largest volumes.

PepsiCo Beverages North America Carbonated Soft Drink Revenue vs. Non-Carbonated Soft Drink Revenue



Non-carbonated beverages generate the largest revenue.

we've recently extended Aquafina with vitamin-fortified Aquafina Alive, and we're now offering Tropicana Organics and Tropicana Essentials, juices with omega-3's, the fatty acids known for helping to promote heart health. Our Propel enhanced water brand, which was among the first entries into the enhanced water category, continues to meet consumer desires for more healthful options through brand extensions like Propel Calcium. Through our North American Coffee Partnership with Starbucks, we introduced Starbucks Iced Coffee as well as Strawberries and Crème Frappuccino and Starbucks DoubleShot Light.

Creating new products is not the only way we build brands. We are experts at capturing consumer attention with our brands. In 2006, we solidified Pepsi's popularity among music fans when Grammy award-winning artist Mariah Carey wrote and recorded original ringtones for the Pepsi Cool Tones and Motorola Phones promotion. In international markets, a Pepsi advertising campaign included an engaging theme song called "DaDaDa" that caught on by connecting soccer fans around the world.

We give our brands special attention. For example, in 2006 we unveiled new packaging and a new logo for Doritos tortilla chips to communicate the brand's powerful crunch

and bold flavor. We reformulated Diet Mountain Dew and gave consumers a taste during the largest single-day sampling event in Pepsi history. Similarly, we kicked off the biggest marketing campaign for Cheetos in the brand's history. And keep your eyes on Fritos corn chips as we celebrate the brand's 75th anniversary in 2007 with special retro packaging.

Mergers and Acquisitions

Our people have the skills to pinpoint, acquire and seamlessly integrate businesses — big and small. This has enabled us to successfully add large companies, like Quaker and Tropicana, and regularly add smaller "tuck-in" deals that enhance and expand our existing operations. These include our recent acquisitions of Izze Beverage Co., Naked Juice, and Stacy's Pita Chip Company in the United States, as well as Star Foods

in Poland, Bluebird Foods in New Zealand and Duyvis nuts in the Netherlands and Belgium.

We are disciplined buyers, with a rigorous process for due diligence to ensure that any potential acquisition makes complete sense from both a business and culture standpoint. As diligent integrators, we have a special understanding of the entrepreneurial nature of smaller "tuck-in" acquisitions and exercise a thoughtful approach to helping these new businesses preserve and build upon their unique capabilities, such as the high level of involvement Stacy's has with its consumers. We not only sign the deals, but we are committed to making them work.



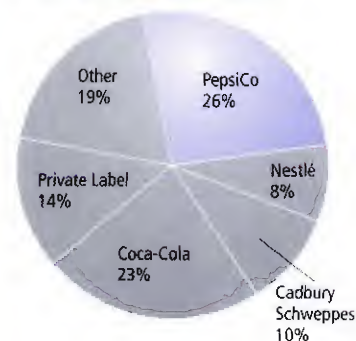
Quaker Oatmeal and Tropicana Pure Premium are important brands in our health and wellness portfolio of products.



Our products are known by trusted brand names in each region of the world, such as Sabritas in Mexico.



U.S. Liquid Refreshment Beverage Market Share
% Volume in Measured Channels



PepsiCo has the leading share of the liquid refreshment beverage market.

Our Unique Culture

PepsiCo's most important advantage resides in our people and the way we operate. We work hard to recruit, train, develop and — most of all — retain a diverse team of the best and brightest. We emphasize results, personal ownership and operational excellence.

Our People

Our people represent PepsiCo's ultimate competitive advantage. Diversity and inclusion are fundamental to our success. We recognize that a diverse workforce and a diverse supplier base help us understand and meet the needs of our diverse consumer base. An inclusive atmosphere allows everyone to contribute fully, generating new ideas and driving innovation.

Our "ownership culture" empowers our associates. We are a big company that thinks like a small enterprise. Our associates fundamentally see their jobs as finding solutions for customers and consumers

and doing what it takes to exceed their expectations.

Most of all, we share a set of PepsiCo Values — represented in a commitment to deliver sustained growth through empowered people, operating with responsibility and building trust.

The Way We Operate

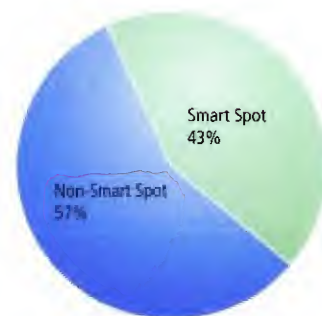
We make, move and sell millions of products every day, which is why day-to-day operational excellence is so critical.

Our Business Process Transformation (BPT) is simplifying and accelerating the speed of our information technology processes. Our goal is to make it easier for our retail and other customers to do business with us. For

example, the BPT efforts will help us provide one invoice to our customers, rather than multiple invoices from our various businesses.

PepsiCo's Power of One initiatives continue to bring new efficiencies to our relationships with customers. For example, through "Innovation Summits" with our customers, we deepen our understanding of their needs and can build on the benefits we bring, with both our products and delivery systems across the entire supply chain.

PepsiCo Net Revenues from Smart Spot Eligible Products U.S. and Canada
% Net Revenue



A wide variety of PepsiCo products carry the Smart Spot symbol to identify choices that can contribute to healthier lifestyles.

In 2006, PepsiCo associate volunteers and KABOOM, a not-for-profit organization, built 12 playgrounds in inner cities to encourage children to be more physically active.



Purpose



Today's consumers increasingly view their spending decisions as a way to make a difference in the world. They want to see their values reflected in the products they buy and their communities strengthened by the businesses they support. At PepsiCo, we believe we are in a perfect position to meet these needs. *We strive to do better by doing better.* In delivering on this commitment, we've identified three areas where we believe we can have the most impact: human sustainability, environmental sustainability and talent sustainability.

Human Sustainability

People need to be nourished in many ways, ranging from what they eat to how they live. We call this human sustainability, and the areas where we can make the greatest difference are through the products we offer consumers and through our efforts to encourage consumers to adopt more active lifestyles. As we pursue these priorities, we tap into the deep expertise and counsel of our Blue Ribbon Health and Wellness Advisory Board, established to help us address health and wellness opportunities.

Products

In the United States, our Smart Spot symbol makes it easier for consumers to identify our products that are nutritious, can contribute fiber, vitamins or other important nutrients, or are reduced in fat, sugar or sodium. Products with the Smart Spot symbol meet nutrition criteria based on authoritative statements from the U.S. Food and Drug Administration and the National Academy of Sciences or provide other functional benefits. Today, more than 250 of our products carry the Smart Spot symbol. On the front panel of the product packaging

consumers see the green Smart Spot symbol that says "Smart Choices Made Easy." And on the back of the packaging we describe what makes each product a better choice.

As new technologies and ingredients become available, we're committed to making our core products better choices. For example, Frito-Lay North America's Ruffles and Lay's potato chips and Walkers United Kingdom's snacks reduced the saturated fat in their leading potato crisp and chip brands by switching to sunflower oil, which delivers improved nutrition without sacrificing taste.

Active Lifestyles

We're committed to helping consumers fight obesity and live healthier lives by supporting programs that help them engage in more active lifestyles. Among the programs we're proud to sponsor is America On the Move (AOM), a national effort in the United States dedicated to helping individuals, families and communities make positive changes in their health and quality of life. AOM recommends making small changes, such as walking 2,000 more steps and consuming 100 fewer calories per day, as a way for consumers to incorporate healthy habits into their everyday lives and avoid weight gain. The African American and Latino communities face some of the greatest health risks. That's why in partnership with the National Urban League and the National Council of La Raza, we're using the messages and methods of AOM to promote healthier living among these constituencies.

We believe it is important to develop the habit of exercising early in life so we have many programs for young people. In the United States, our alliance with the YMCA, the largest provider of fitness programs, is expected to reach more than

Our Mission

We aspire to make PepsiCo the world's premier consumer products company, focused on convenient foods and beverages. We seek to produce healthy financial rewards for investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive to act with honesty, openness, fairness and integrity.



nine million youths. We have programs on the local level as well. For example, in Chicago through the Chicago Communities in Schools and the Consortium to Lower Obesity in Chicago Children (CLOCC) we are collaborating on an effort to pilot, test and deliver a health promotion program in six Chicago communities and schools.

Outside the United States, we support initiatives such as the Gatorade Schools program in Brazil, which encourages good nutrition and physical activity. In Mexico, we support a program to construct recreational areas in indigenous shelters in order to promote sports in these communities.



The PepsiCo Smart Spot symbol helps consumers select products such as Baked! Cheetos, which are lower in calories.



School Programs

We recognize the critical importance of helping children learn to make healthy food choices. In 2006, PepsiCo was the only company to be part of two historic agreements — one for beverages and one for snacks — to provide schools in the United States with products that can contribute to healthier lifestyles.

Through our partnership with the Alliance for a Healthier Generation — a joint initiative of the William J. Clinton Foundation and the American Heart Association — we will offer U.S. schools products that meet specific nutritional guidelines. Under the beverage guidelines, we no longer will offer full-calorie soft drinks, juice drinks or teas in any K-12 schools, and we'll limit the calories and portion sizes of beverages, including sports drinks and juices. On the snacks side, we helped set the first-ever voluntary guidelines for what will be offered in U.S. schools. Both agreements represent a

breakthrough step to adopt a practical policy for snack, food and beverage offerings in U.S. schools.

Marketing

We have begun to enlist our products in promoting key issues. Through the North American Coffee Partnership, our joint venture with Starbucks Coffee Company, we entered into an agreement to increase distribution of Ethos Water to retail stores in the United States. For each bottle of Ethos Water that is sold, a \$0.05 donation is made to help children and their communities around the world get access to clean drinking water.

Frito-Lay's SunChips brand sponsored the Komen Race for the Cure National Volunteer Recognition Program in the United States. The partnership included SunChips' "Crunch for the Cure" pink bags, with part of the proceeds going to the Susan G. Komen Breast Cancer Foundation to support the fight against breast cancer.



Through our North American Coffee Partnership, our joint venture with Starbucks, PepsiCo is working to increase distribution of Ethos Water, which will donate \$0.05 for every bottle sold to help children around the world get clean drinking water.

Our Sustainability Vision

PepsiCo's responsibility is to continually improve all aspects of the world in which we operate — environment, social, economic — creating a better tomorrow than today.

Tomorrow > Today

Environmental Sustainability

Environmental sustainability means replenishing resources we use — on our planet and in the communities we serve. We have defined our focus areas to be water, packaging and energy. In our communities we are supporting the fight against HIV/AIDS as well as other philanthropic and volunteer activities.

Water

Our water program goals begin with making sure our practices are responsible. We work closely with governments, municipalities and technical experts when locating our facilities to ensure adequate quantity and quality of water supply. We have programs to reduce our use of water and reuse water whenever possible. Gatorade, for example, is reducing its water use by installing waterless rinsing systems to clean its bottles. We are focused on finding new opportunities to save water. For example, across Frito-Lay North America our water conservation initiatives have reduced the quantity of water used in processing snack chips by more than one-third since 1999.

Where water shortages are an issue, we recognize our responsibility to help make

sure the communities in which we operate have access to sufficient water. For example, in India, PepsiCo is supporting The Energy and Resources Institute (TERI) to help improve water processes and management. These projects include an evaluation of water resources and preparation of area-wide management plans, including the rejuvenation of traditional water systems.

The PepsiCo Foundation is working with the China Women's Development Foundation on a research initiative to expand availability of safe drinking water for the people of Western and Central China. PepsiCo China's work with the Mothers' Water Celler Project has already brought water to thousands of families in remote locations by building water storage wells and the capability to harvest rainwater.



Programs with the National Council of La Raza and the National Urban League encourage physical activity and healthier eating and address health concerns of African American and Latino consumers.



Our Ethos Water distribution agreement has a goal of contributing at least \$10 million by the end of 2010 to help children and their communities around the world get clean drinking water. Our support of The Safe Water Network, a not-for-profit organization we helped establish, is focused on developing and deploying new affordable water purification technology to provide safe water to communities in need.

We also share our water expertise. In India, for example, we've shown farmers techniques that save water by directly seeding rice paddies, rather than growing the rice through highly water-intensive conventional seeding.

Packaging

We are committed to reducing, reusing and recycling our packaging and waste. To help us achieve our goals, we have established a Sustainable Packaging Team. Its objectives include developing alternative packaging material technologies and supporting responsible disposal practices.

We begin with our operations. For example, in the United States today a 20-ounce Gatorade Thirst Quencher bottle weighs 10% less and uses 70% less packaging to deliver the product than the same size bottle sold in 1998. Tropicana re-engineered the way it delivers apple juice concentrate in the United States. Its move to recyclable "flexi" bags eliminated nearly 43,000 steel drums annually.

For decades, our snack food operations have recovered starch released in the potato chip making process. In 2006, our United Kingdom snack food operation received government approval for a process that creates food-grade level starch, much of which can be used in our own products.

Recycling is a way of life at PepsiCo. The Frito-Lay direct-store-delivery system enables our associates to recover delivery cartons after use. A typical carton makes about six trips, eliminating some 60 billion pounds of solid waste a year. We helped found the National Recycling Partnership, an initiative to increase recycling across the United States. And we have supported Keep America Beautiful's (KAB) Great American Cleanup, the nation's largest voluntary clean-up program, since its inception.

In 2006, Pepsi-Cola North America partnered with Sam's Club and KAB in an innovative program called "Return the Warmth." KAB helped

Selected 2006 Environmental Honors

- ★ **PepsiCo China:** four awards for Mothers' Water Celler Project.
- ★ **PepsiCo:** Vision for America Award from Keep America Beautiful.
- ★ **Frito-Lay North America:** Energy Star Partner of the Year from the Environmental Protection Agency (EPA) and the Department of Energy (DOE).
- ★ **Frito-Lay San Antonio, Texas:** WaterSaver Award.
- ★ **Frito-Lay California:** Bakersfield and Modesto facilities won the state WRAP award for outstanding performance in reducing solid waste.

communities recycle more than 36 million beverage bottles. Sam's Clubs provided school grants, as well as fleece jackets made with recycled plastic, for needy children in the area.

Helping to reduce waste is just as important in our markets outside the United States. In India, for example, we convert packaging film waste to boards, building and furniture material.

Energy

In 2006, Frito-Lay was recognized by the United States Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE) for energy conservation. The EPA and DOE conferred Partner-of-The-Year in Energy Management to Frito-Lay North America for its voluntary efforts to reduce greenhouse gas emissions through energy efficiency.

At Tropicana we reduced our electricity demand by eliminating some refrigeration



A Pepsi-Cola North America program with Keep America Beautiful and Sam's Club encouraged recycling by providing grants to schools that recycled the most beverage containers and donating fleece jackets made with recycled plastic to needy children in the community.



and instead storing juice blends in aseptic tanks at above freezing temperatures. The operation also co-generates power and heat to meet most of our on-site electricity needs. Three of our Gatorade plants capture and reuse biogas, a by-product of water treatment operations, as boiler fuel.

One way we are reducing greenhouse gas emissions is by using alternative power

more and more. For example, in Cupar, Scotland, our Quaker oat mill is using electricity from 100% renewable sources. And at our Frito-Lay plant in Modesto, California, we're building a production line in which nearly three-quarters of the heat needed to produce SunChips brand multigrain snacks will come from solar thermal energy.

Our focus extends to the pages you are reading. This

annual report was made with recycled paper and "Green Power," which means that the power used in the creation of some of the paper was not from fossil fuel.

HIV/AIDS

HIV/AIDS poses a major threat in many places where we operate, especially in high risk countries such as South Africa, India, Russia, China and Thailand. Our global HIV/AIDS policy provides a template to help fight the pandemic, and our associates have joined in the fight. For example, in South Africa our Simba associates serve as Peer Educators in the community.

Contributions and Community Service

Through the PepsiCo Foundation, and our corporate and divisional contributions, we provide financial support for not-for-profit organizations across the globe. Focus areas include health and wellness, diversity and inclusion, the environment, employee community engagement and humanitarian aid in the event of disaster. Groups looking for support can apply on-line at www.pepsico.com.

In-kind donations include food and beverages donated to food banks. Our community outreach programs include community service weeks. During our 2006 Global Week of Community Service, more than 1,000 associates provided volunteer work in their communities in the United States, Mexico and South Africa. In Mexico City, for example, Sabritas associates repaired the "Casa de los Niños de Palo Solo," a health development center serving approximately 260 children.

Our associates are active in their communities in innovative ways. In Brazil, an Elma Chips truck has been turned into a roving library for children. In Vietnam, through the Poor Patient's Association, our associates help economically disadvantaged people receive medical care. In Egypt and Lebanon, our businesses support scholarships to help young people continue their education.

In India, we're promoting seaweed farming as a local employment opportunity for women in remote coastal communities, who would otherwise have to travel great distances to find work.



PepsiCo water programs reach into communities to help address water shortages. In India, programs are bringing water to drought stricken areas and developing water management programs in areas where monsoons are common.

Sustainability Time Line

- | | |
|---|---|
| <p>1999 Frito-Lay North America begins formal resource conservation program.</p> <p>2001 PepsiCo Environmental Task Force formed.</p> <p>2002 Carbonated beverage packaging goal of 10% recycled content in Pepsi-Cola North America adopted.</p> <p>2003 Global Reporting Initiative Guidelines adopted.</p> | <p>2004 Sustainability Task Force formed.</p> <p>2005 Environmental Management System developed.</p> <p>2006 Dow Jones Sustainability Index North America names PepsiCo to list.</p> |
|---|---|

Selected 2006 Community and Sustainability Honors

- ★ International Corporate Courage Award: AIDS Responsibility Project (ARP).
- ★ Gamesa — Quaker, Mexico: Empresa Socialmente Responsable.
- ★ 100 Best Corporate Citizens from Business Ethics magazine.
- ★ America's Most-Admired Companies from FORTUNE magazine.
- ★ Dow Jones Sustainability Index North America.

2006 Contribution Summary

PepsiCo Foundation	\$21.9 Million
Corporate Contributions	5.2 Million
Divisions	4.2 Million
Estimated In-Kind Donations	27.2 Million
Total	\$58.5 Million



Talent Sustainability

Our approximately 168,000 PepsiCo associates around the world are the reason for our success. Recruiting, training and retaining our associates and building a culture of equality, diversity and inclusion allow us to achieve Talent Sustainability and demonstrate to our associates that we cherish them.

Associates

Our commitment to our associates is formalized in our Human Rights Policy which was introduced in 2006. Our goal is to make PepsiCo the company that hires, develops and retains the best people — irrespective of race, color, creed, gender or lifestyle orientation.

There are many ways we are making this a reality — ranging from how we train, reward and compensate our associates to our robust and historic diversity and inclusion programs. Company programs help associates manage their careers, train for advancement, increase their knowledge and skills, and participate in lifestyle and personal development opportunities. HealthRoads, offered in North America, is a health benefits program that promotes healthier lifestyles for our associates and their families through information, online tools and personalized

wellness coaching. Our SharePower program provides stock options to associates around the world and encourages them to act like owners of the company.

Diversity and Inclusion

To attract and retain the best people, we seek to create a diverse and inclusive culture where everyone has equal opportunity to contribute and to succeed. We have several initiatives to help us in this area. Our Diversity and Inclusion Governance Council, formed in 2005, is a cross-divisional, cross-functional group composed of internal and external thought leaders. Its mission is to raise the bar on diversity and inclusion. Our Ethnic Advisory Boards provide counsel and advice on business issues ranging from marketing our brands to supporting our employees.

Outside North America we have a growing number

Associates like Israel Perez, a Frito-Lay route sales representative in the New York City area, are the reason for PepsiCo's success.



Spending with U.S. minority-owned and women-owned suppliers surpassed \$1 billion for the first time.

of programs to promote diversity and inclusion and support employees. In the *United Kingdom and Ireland Times*, for example, we were rated as one of the "Top 50 Places Where Women Want to Work."

Our focus on diversity is equally strong in our procurement processes. We have teams dedicated to increasing the diversity of our supplier base. In 2006, for the first time, we surpassed \$1 billion in purchases from U.S. minority-owned and women-owned suppliers.

For more information, read our sustainability report, visit the Corporate Citizenship section and see our environmental programs in action at www.pepsico.com.

Selected 2006 Diversity and Inclusion Honors

- ★ America's Top Corporations for Women's Business Enterprises: Women's Business Enterprise National Council (WBENC).
- ★ Top 50 Companies for Diversity: Diversity, Inc.
- ★ 40 Best Companies for Diversity: Black Enterprise.
- ★ National Association of Asian American Professionals Convention: NAAAP Convention Excellence award.
- ★ Latina Style magazine: The 50 Best Companies for Latinas to Work for in the U.S.
- ★ Hispanic Business magazine: Top 50 Companies for Hispanics.
- ★ United Kingdom and Ireland Times: Top 50 Places Where Women Want to Work.
- ★ PepsiCo scores 100% on the Corporate Equality Index.

U.S. Diversity and Inclusion Statistics

	Total	Women	%	Minority	%
Board of Directors	14	3	21	4	29
Senior Executives	23	4	17	6	26
Executives	2,165	696	32	422	19
All Managers	12,903	3,919	30	2,903	22
All Employees	62,251	15,169	24	18,573	30

At year-end we had approximately 168,000 associates worldwide.

Our Board of Directors is pictured on page 23. Our Senior Executives include Corporate and Division Officers based in the United States. The list appears on page 22. Beginning this year, we are including Professionals in the All Managers category to better capture our executive talent pool.

**PEPSICO**

Corporate Officers and Principal Divisions

Executive Offices PepsiCo, Inc.

700 Anderson Hill Road
Purchase, NY 10577
914-253-2000

Co-founder of PepsiCo

Donald M. Kendall

Over 55 years of PepsiCo experience.

Corporate Officers

Steven S. Reinemund

Executive Chairman and Chairman of the Board of Directors
58. 22 years.

Indra K. Nooyi

Chairman Elect and Chief Executive Officer
51. 13 years.

Mitch Adamek

Senior Vice President and Chief
Procurement Officer
45. 17 years.

Peter A. Bridgman

Senior Vice President and
Controller
54. 21 years.

Richard Goodman

Chief Financial Officer
58. 13 years.

Wahid Hamid

Senior Vice President, Corporate
Strategy and Development
48. Less than one year.

Hugh F. Johnston

Executive Vice President,
Operations
45. 19 years.

Antonio Lucio

Chief Health and Wellness
Innovation Officer
47. 11 years.

Tod J. MacKenzie

Senior Vice President,
Corporate Communications
49. 19 years.

Matthew M. McKenna

Senior Vice President, Finance
56. 13 years.

Margaret D. Moore

Senior Vice President,
Human Resources
59. 33 years.

Lionel L. Nowell III

Senior Vice President
and Treasurer
52. 15 years.

Ronald C. Parker

Senior Vice President,
Human Resources,
PepsiCo North America
and Senior Vice President,
Global Diversity, PepsiCo
53. 24 years.

Clay G. Small

Senior Vice President,
Managing Attorney
57. 25 years.

Larry D. Thompson

Senior Vice President,
Government Affairs
General Counsel and Secretary
61. 2 years.

Cynthia M. Trudell

Senior Vice President and Chief
Personnel Officer
53. Less than one year.

Michael D. White

Chief Executive Officer,
PepsiCo International
and Vice Chairman, PepsiCo
55. 17 years.

PepsiCo North America

700 Anderson Hill Road
Purchase, NY 10577
914-253-2000

John C. Compton

Chief Executive Officer
45. 23 years.

Division Officers

Frito-Lay North America

7701 Legacy Drive
Plano, TX 75024
972-334-7000

Albert P. Carey

President and Chief Executive Officer
55. 25 years.

Pepsi-Cola North America

700 Anderson Hill Road
Purchase, NY 10577
914-253-2000

Dawn Hudson

President and Chief Executive Officer
49. 10 years.

**QTG (Quaker Foods/
Tropicana/Gatorade)**

QTG Plaza
555 West Monroe Street
Chicago, IL 60661
312-821-1000

Charles I. Maniscalco

President and Chief Executive Officer
53. 26 years.

PepsiCo Sales

700 Anderson Hill Road
Purchase, NY 10577
914-253-2000

Tom Greco

President,
Sales
48. 20 years.

PepsiCo International

700 Anderson Hill Road
Purchase, NY 10577
914-253-2000

Michael D. White

Chief Executive Officer, PepsiCo International and Vice Chairman, PepsiCo

Division Officers

PepsiCo Asia

20th Floor
Caroline Center
28 Yun Ping Road
Causeway Bay
Hong Kong
852-2839-0288

Ron McEachern

President
54. 22 years.

PepsiCo Europe

50, rue du Rhône
CH - 124 Geneva
Switzerland
41-22-818-6900

Zein Abdalla

President
47. 11 years.

**PepsiCo Latin America
Region Foods &
Beverages**

Av. Lázaro Cárdenas 2404 Pte.
Col. Residencial San Agustín
Garza García, NL
66270
Mexico
52-81-8399-5151

Salvador Alva

President
56. 23 years.

**PepsiCo Middle
East & Africa**

Khalid Ibn Al Waleed Road
Bank of Fujairah Building,
3rd Floor
PO Box 11330
Dubai
United Arab Emirates
971-4-397-1666

Saad Abdul-Latif

President
53. 25 years.

Sabritas & Gatorade

Bosques de Duraznos No. 67
Col. Bosques de las Lomas
11700 Mexico D.F.
Mexico
52-55-2582-3000

Pedro Padierna

President
56. 19 years.

**PepsiCo United
Kingdom**

1600 Arlington Business Park
Theale, Reading
Berkshire
RG7 4SA UK
44-118-930-6666

Salman Amin

President
47. 11 years.

**PepsiCo International
Commercial**

700 Anderson Hill Road
Purchase, NY 10577
914-253-2000

Massimo d'Amore

Executive Vice President
51. 12 years.

PepsiCo Board of Directors



Back row, left to right: Robert E. Allen, John F. Akers, Victor J. Dzau, M.D., Sharon Percy Rockefeller, Daniel Vasella.
Second row, left to right: Franklin A. Thomas, Alberto Ibargüen, Michael D. White, Ray L. Hunt, Arthur C. Martinez.
Front row, left to right: Steven S. Reinemund, Dina Dublon, James J. Schiro, Indra K. Nooyi.

PepsiCo Board of Directors

John F. Akers

Former Chairman of the Board and Chief Executive Officer, International Business Machines Corporation
72. Elected 1991.

Robert E. Allen

Former Chairman of the Board and Chief Executive Officer, AT&T Corp.
72. Elected 1990.

Dina Dublon

Consultant, Former Executive Vice President and Chief Financial Officer, JPMorgan Chase & Co.
53. Elected 2005.

Victor J. Dzau, M.D.

Chancellor for Health Affairs, Duke University and President & CEO, Duke University Health Systems
61. Elected 2005.

Ray L. Hunt

Chief Executive Officer, Hunt Oil Company, and Chairman, Chief Executive Officer and President Hunt Consolidated, Inc.
63. Elected 1996.

Alberto Ibargüen

President and Chief Executive Officer, John S. and James L. Knight Foundation
63. Elected 2005.

Arthur C. Martinez

Former Chairman of the Board, President and Chief Executive Officer, Sears, Roebuck and Co.
67. Elected 1999.

Indra K. Nooyi

Chairman Elect and Chief Executive Officer, PepsiCo
51. Elected 2001.

Steven S. Reinemund

Executive Chairman, and Chairman of the Board of Directors, PepsiCo
58. Elected 1996.

Sharon Percy Rockefeller

President and Chief Executive Officer, WETA Public Stations
62. Elected 1986.

James J. Schiro

Chief Executive Officer, Zurich Financial Services
61. Elected 2003.

Franklin A. Thomas

Consultant, The Study Group
72. Elected 1994.

Daniel Vasella

Chairman of the Board and Chief Executive Officer, Novartis AG
53. Elected 2002.

Michael D. White

Chief Executive Officer, PepsiCo International and Vice Chairman of PepsiCo
55. Elected 2006.

PepsiCo announced on Feb. 5, 2007, the election of Indra K. Nooyi as Chairman of the Board, effective when current Chairman Steven S. Reinemund retires on May 2, 2007. Listings include age and year elected a PepsiCo director.

Ethnic Advisory Boards

Our Ethnic Advisory Boards provide management with external viewpoints on issues related to diversity and inclusion, especially in the marketplace.

Board membership is established for external individuals based on their diverse backgrounds, experiences and points of view. These boards provide counsel and advice on a range of business areas including:

- Marketing to targeted communities.
- Building alliances with retailers.
- Creating products for a more diverse consumer base.
- Developing a more diverse supplier base and other business relationships.



Back row, left to right: Kweisi Mfume, Keith Clinkscales, Roderick D. Gillum, Reverend Al Sharpton, Earl G. Graves, Jr., Robert Holland, Jerri DeVard, Warren M. Thompson.

Front row, left to right: Darlene Williamson, Ph.D., Ray M. Robinson, Reverend Dr. W. Franklyn Richardson, Glenda McNeal, Amy Hilliard, Earl G. Graves, Sr., Dawn Hudson, Benaree Pratt Wiley, Johnny F. Johnson, Clarence Avant.

African American Advisory Board

Clarence Avant

Chairman,
Interior Music
Joined 1999.

Keith Clinkscales

Senior Vice President and
General Manager,
ESPN Publishing
Joined 1999.

Jerri DeVard

Former Senior Vice President, Brand
Management and Marketing
Communications,
Verizon Communications
Joined 2002.

Roderick D. Gillum

Vice President, Corporate
Responsibility and Diversity,
General Motors
Joined 2005.

Earl G. Graves, Sr.

Chairman and Publisher,
Earl G. Graves Ltd.
Black Enterprise Magazine
Joined 1999.
Chairman of the Advisory Board

Earl G. Graves, Jr.

President and
Chief Executive Officer,
Black Enterprise Magazine
Joined 2006.

Amy Hilliard

President and Chief
Executive Officer,
The Hilliard Group &
The ComfortCake Co.
Joined 1999.

Robert Holland

Partner,
Williams Capital
Joined 1999.

Dawn Hudson

President and
Chief Executive Officer,
Pepsi-Cola North America
Joined 1999.

Johnny F. Johnson

Chief Executive Officer,
KA Management
Joined 1999.

Glenda McNeal

Senior Vice President Global
Partnerships, American Express
Joined 1999.

Kweisi Mfume

Former President and
Chief Executive Officer,
National Association for the
Advancement of Colored
People (NAACP)
Joined 2005.

Reverend Dr. W. Franklyn Richardson

Senior Minister,
Grace Baptist Church
Joined 1999.

Ray M. Robinson

President,
East Lake Golf
Joined 1999.

Reverend Al Sharpton

President,
National Action Network
Joined 1999.

Warren M. Thompson

Chairman and
Chief Executive Officer,
Thompson Hospitality
Corporation, Inc.
Joined 2002.

Benaree Pratt Wiley

Retired President and
Chief Executive Officer,
The Partnership
Joined 2002.

Darlene Williamson, Ph.D.

Former President and
Chief Executive Officer,
Performax Consulting Services
Joined 1999.

- Promoting PepsiCo's diversity and inclusion efforts.
- Recommending diverse talent for open positions.
- Encouraging the expansion of diversity representation among PepsiCo employees.
- Providing a perspective on diversity and inclusion issues or questions.

Our African American Advisory Board was formed in 1999. The Latino/Hispanic Advisory Board was established in 2000. Our Canada business convened an Asian Advisory Council in 2006.

We welcome Earl Graves, Jr. to the African American Advisory Board. We regret the passing of our esteemed member, Darwin Davis, Sr., who served the board since 1999.

To our Latino/Hispanic Advisory Board, we welcome Cid Wilson.



Left to right: Isabel Valdés, Cid Wilson, Carlos H. Arce, Ph.D., Deborah Rosado Shaw, Raúl Yzaguirre, Albert P. Carey, Raquel Malo, Douglas X. Patiño, Ph.D., Maria Contreras-Sweet, Carlos A. Saladrigas, Víctor Arias, Jr., Ricardo R. Fernández, Ph.D., Gilbert Aranza

Latino/Hispanic Advisory Board

Gilbert Aranza

President,
Star Concessions
The MultiRestaurant Group
Joined 2000.

Carlos H. Arce, Ph.D.

President and Founder,
NuStats
Joined 2000.

Víctor Arias, Jr.

Partner,
Heidrick & Struggles
Joined 2000.

Albert P. Carey

President and Chief Executive Officer,
Frito-Lay North America
Joined 2006.

Ricardo R. Fernández, Ph.D.

President,
Lehman College,
The City University of New York
Joined 2003.

Raquel Malo

Senior Vice President,
High Performance Nutrition,
Human Performance Institute
Joined 2004.

Douglas X. Patiño, Ph.D.

Vice Chancellor Emeritus and
Professor,
California State University
Joined 2000.

Carlos A. Saladrigas

Chairman,
Premier American Bank
Joined 2003.

Deborah Rosado Shaw

Partner,
Multi-ethnic Success Ventures, LLC
Joined 2000.

Maria Contreras-Sweet

Chairwoman,
Proamerica Bank
Joined 2005.

Isabel Valdés

Consultant, Author, Public Speaker
Joined 2001.

Cid Wilson

Director of Equity Research,
Kevin Dann and Partners, LLC
Joined 2006.

Raúl Yzaguirre

Presidential Professor,
Center for Community Development
and Civil Rights
Arizona State University
Joined 2000.
Chairman of the Advisory Board

Blue Ribbon Health and Wellness Advisory Board

PepsiCo's Blue Ribbon Health and Wellness Advisory Board provides advice and expertise on a variety of health and wellness initiatives.

The initiatives include:

- Improving the healthfulness of our existing products.
- Evaluating our efforts to develop new better-for-you and good-for-you products.
- Providing access to resources that promote health and encourage active lifestyles.
- Identifying emerging opportunities in the area of health and wellness.

- Connecting us to thought leaders and policy makers in the area of health and wellness.

Some of our international businesses are seeking advice in a similar manner. For example, our Brazilian business has created the PepsiCo Panel of Experts. We welcome Dr. William Sears to our Board this year.



Front row, left to right: Brock H. Leach, Kristy F. Woods, M.D., M.P.H., James O. Hill, Ph.D., Gro Harlem Brundtland, M.D., Susan Love, M.D.
Second row, left to right: David Heber, M.D., Ph.D., Pamela Peeke, M.D., M.P.H., Antonio Lucio (PepsiCo), Antonia Demas, Ph.D., Mario Maranhão, M.D., Janet Taylor, M.D.
Back row, left to right: Kenneth Cooper, M.D., M.P.H., Fernando M. Treviño, Ph.D., M.P.H., James B. Hunt, Jr., Dean Ornish, M.D., Ambassador Thomas Foley, David A. Kessler, M.D., J.D., Samuel Ward Casscells, M.D., William Sears, M.D.

Gro Harlem Brundtland, M.D.
Former Director-General
World Health Organization,
United Nations
Former Prime Minister, Norway
Joined 2004.

Samuel Ward Casscells, M.D.
John Edward Tyson Distinguished
Professor of Medicine & Public Health
and Vice President for Biotechnology
The University of Texas Health &
Science Center at Houston
Joined 2003.

**Kenneth H. Cooper, M.D.,
M.P.H.**
President & Founder
The Cooper Aerobics Center
Joined 2003.

Antonia Demas, Ph.D.
Director
Food Studies Institute
Joined 2003.

Ambassador Thomas Foley
Akin Gump Strauss Hauer & Feld, LLP
Former Speaker of the U.S. House of
Representatives and Former U.S.
Ambassador to Japan
Joined 2003.

David Heber, M.D., Ph.D.
Professor of Medicine & Public Health
Director, UCLA Center for
Human Nutrition
Joined 2003.

James O. Hill, Ph.D.
Professor of Pediatrics & Medicine
University of Colorado Health
Sciences Center
Founder, America On the Move
Joined 2003.

Governor James B. Hunt, Jr.
Former Governor of North Carolina
Joined 2003.

David A. Kessler, M.D., J.D.
Dean, School of Medicine
Vice Chancellor for Medical Affairs
University of California, San Francisco
Joined 2003.

Brock H. Leach
Seminary Student &
Community Volunteer
PepsiCo Chief Innovation and Health &
Wellness Officer, Retired
Joined 2003.

Susan Love, M.D.
President and Medical Director
Dr. Susan Love Research Foundation
Joined 2003.

Mario Maranhão, M.D.
Former President
World Heart Federation
Joined 2004.

Dean Ornish, M.D.
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Our Business

Our discussion and analysis is an integral part of understanding our financial results. Definitions of key terms can be found in the glossary on page 82. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Our Operations

We are a leading global snack and beverage company. We manufacture, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and non-carbonated beverages and foods. We are organized into four divisions:

Our Divisions

- Frito-Lay North America (FLNA)
- PepsiCo Beverages North America (PBNA)
- PepsiCo International (PI)
- Quaker Foods North America (QFNA)

Our North American divisions operate in the United States and Canada. Our international division operates in approximately 200 countries, with our largest operations in Mexico and the United Kingdom. Additional information concerning our divisions and geographic areas is presented in Note 1.

Frito-Lay North America

Frito-Lay North America (FLNA) manufactures or uses contract manufacturers, markets, sells and distributes branded snacks. These snacks include Lay's potato chips, Doritos tortilla chips, Tostitos tortilla chips, Cheetos cheese flavored snacks, Fritos corn chips, branded dips, Ruffles potato chips, Quaker Chewy granola bars, SunChips multigrain snacks, Rold Gold pretzels, Santitas tortilla chips, Frito-Lay nuts, Grandma's cookies, Munchies snack mix, Gamesa cookies, Lay's Stax potato crisps, Funyuns onion flavored rings, Quaker Quakes corn and rice snacks, Miss Vickie's potato chips, branded crackers, Quaker snack mix, Smartfood

popcorn, Chester's fries, Stacy's pita chips and Quaker Fruit & Oatmeal bars. FLNA branded products are sold to independent distributors and retailers.

PepsiCo Beverages North America

PepsiCo Beverages North America (PBNA) manufactures or uses contract manufacturers, markets and sells beverage concentrates, fountain syrups and finished goods, under various beverage brands including Pepsi, Mountain Dew, Gatorade,

Tropicana Pure Premium, Lipton, Sierra Mist, Tropicana juice drinks, Propel, Dole and SoBe. PBNA also manufactures or uses contract manufacturers, markets and sells ready-to-drink tea, coffee and water products through joint ventures with Unilever (under the Lipton brand name) and Starbucks. In addition, PBNA licenses the Aquafina water brand to its bottlers and markets this brand. PBNA sells concentrate and finished goods for some of these brands to authorized bottlers, and some of these branded products are sold directly by us to independent distributors and retailers. The bottlers sell our brands as finished goods to independent distributors and retailers. PBNA's volume reflects sales to its independent distributors and retailers, as well as the sales of beverages bearing our trademarks that bottlers have reported as sold to independent distributors and retailers.

PepsiCo International

PepsiCo International (PI) manufactures through consolidated businesses as well as through noncontrolled affiliates, a number of leading salty and sweet snack brands including Lay's, Walkers, Cheetos, Doritos, Ruffles, Gamesa and Sabritas. Further, PI manufactures or uses contract manufacturers, markets and sells many Quaker brand snacks. PI also manufactures, markets and sells beverage concentrates, fountain syrups and finished goods under the brands Pepsi, 7UP, Mirinda, Gatorade, Tropicana and Mountain Dew. These brands are sold to authorized bottlers, independent distributors and retailers. However, in certain markets, PI operates its own bottling plants and distribution facilities. PI also licenses the Aquafina water brand to certain of its authorized bottlers. PI reports two measures of volume. Snack volume is reported on a system-wide basis, which includes our own volume and the volume sold by our noncontrolled affiliates. Beverage volume reflects Company-owned and authorized bottler sales of beverages bearing our trademarks to independent distributors and retailers.

Quaker Foods North America

Quaker Foods North America (QFNA) manufactures or uses contract manufacturers, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Aunt Jemima mixes and syrups, Cap'n Crunch cereal, Quaker grits, Life cereal, Rice-A-Roni, Pasta Roni and Near East side dishes. These branded products are sold to independent distributors and retailers.

Our Customers

Our customers include authorized bottlers and independent distributors, including foodservice distributors, and retailers. We normally grant our bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements specify the amount to be paid by our bottlers for concentrate, finished goods and Aquafina royalties, as well as the manufacturing process required for product quality.

Since we do not sell directly to the consumer, we rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products. For our independent distributors and retailers, these incentives include volume-based rebates, product placement fees, promotions and displays. For our bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support, and vending and cooler equipment placement. Consumer incentives include coupons, pricing discounts and promotions, such as sweepstakes and other promotional offers. Advertising support is directed at advertising programs and supporting bottler media. New product

support includes targeted consumer and retailer incentives and direct marketplace support, such as point-of-purchase materials, product placement fees, media and advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually. The level of bottler funding is at our discretion because these incentives are not required by the terms of our bottling contracts.

Since we do not sell directly to the consumer, we rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products.

Retail consolidation continues to increase the importance of major customers. In 2006, sales to Wal-Mart represented approximately 9% of our total net revenue; and our top five retail customers represented approximately 26% of our 2006 North American net revenue, with Wal-Mart representing approximately 13%. These percentages include concentrate sales to our bottlers which are used in finished goods sold

by them to these retailers. In addition, sales to The Pepsi Bottling Group (PBG) represented approximately 10% of our total net revenue. See "Our Related Party Bottlers" and Note 8 for more information on our anchor bottlers.

Our Related Party Bottlers

We have ownership interests in certain of our bottlers. Our ownership is less than 50%, and since we do not control these bottlers, we do not consolidate their results. We include our share of their net income based on our percentage of economic ownership in our income statement as bottling equity income. We have designated three related party bottlers, PBG, PepsiAmericas, Inc. (PAS) and Pepsi Bottling Ventures LLC (PBV), as our anchor bottlers. Our anchor bottlers distribute approximately 60% of our North American beverage volume and approximately 18% of our international beverage volume. Our anchor bottlers participate in the bottler funding programs described above. Approximately 8% of our total 2006 sales incentives are related to these bottlers. See Note 8 for additional information on these related parties and related party commitments and guarantees.

Our Distribution Network

Our products are brought to market through direct-store-delivery, broker-warehouse and foodservice and vending distribution networks. The distribution system used depends on customer needs, product characteristics and local trade practices.

Direct-Store-Delivery

We, our bottlers and our distributors operate direct-store-delivery systems that deliver snacks and beverages directly to retail stores where the products are merchandised by our employees or our

bottlers. Direct-store-delivery enables us to merchandise with maximum visibility and appeal. Direct-store-delivery is especially well-suited to products that are restocked often and respond to in-store promotion and merchandising.

Broker-Warehouse

Some of our products are delivered from our manufacturing plants and warehouses to customer warehouses and retail stores. These less costly systems generally work best for products that are less fragile and perishable,

have lower turnover, and are less likely to be impulse purchases.

Foodservice and Vending

Our foodservice and vending sales force distributes snacks, foods and beverages to third-party foodservice and vending distributors and operators. Our foodservice and vending sales force also distributes certain beverages through our bottlers. This distribution system supplies our products to schools, businesses, stadiums, restaurants and similar locations.

Our Competition

Our businesses operate in highly competitive markets. We compete against global, regional, local and private label manufacturers on the basis of price, quality, product variety and distribution. In measured channels, our chief beverage competitor, The Coca-Cola Company, has a slightly larger share of carbonated soft drink (CSD) consumption in the U.S., while we have a larger share of chilled juices and isotonic. In addition, The Coca-Cola Company maintains a significant CSD share advantage in many markets outside North

America. Further, our snack brands hold significant leadership positions in the

We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allow us to compete effectively.

snack industry worldwide. Our snack brands face local and regional competi-

tors, as well as national and global snack competitors, and compete on issues related to price, quality, product variety and distribution. Success in this competitive environment is dependent on effective promotion of existing products and the introduction of new products. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allow us to compete effectively.

Other Relationships

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. Those Board members do not participate in our vendor selection and negotiations nor in our customer negotiations. Our

transactions with these vendors and customers are in the normal course of business and are consistent with terms negotiated with other vendors and customers. In addition, certain of our employees serve on the boards of our

anchor bottlers and other affiliated companies and do not receive incremental compensation for their Board services.

Our Business Risks

We are subject to risks in the normal course of business due to adverse developments with respect to:

- product demand,
- our reputation,
- information technology,
- supply chain,
- retail consolidation, the loss of major customers and failure to maintain good relationships with our bottling partners,
- global, economic, environmental and political conditions,
- the regulatory environment,
- workforce retention and outsourcing,
- raw materials and other supplies,
- competition, and
- market risks.

Demand for our products may be adversely affected by changes in consumer preferences and tastes or if we are unable to innovate or market our products effectively.

We are a consumer products company operating in highly competitive markets and rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Any significant changes in consumer preferences and any inability on our part to anticipate and react to such changes could result in reduced demand for our products and erosion of our competitive and financial position. Our success depends on our ability to respond to consumer trends, such as consumer health concerns about obesity, product attributes and ingredients. In addition, changes in product category consumption or consumer demographics could result in reduced demand for our products. Consumer preferences may shift due to

a variety of factors, including the aging of the general population, changes in social trends, changes in travel, vacation or leisure activity patterns, weather, negative publicity resulting from regulatory action or litigation against companies in the industry, or a downturn in economic conditions. Any of these changes may reduce consumers' willingness to purchase our products.

Our continued success is also dependent on our product innovation, including maintaining a robust pipeline of new products, and the effectiveness

Our continued success is dependent on our product innovation, including maintaining a robust pipeline of new products, and the effectiveness of our advertising campaigns and marketing programs.

of our advertising campaigns and marketing programs. There can be no assurance as to our continued ability either to develop and launch successful new products or variants of existing products, or to effectively execute

advertising campaigns and marketing programs. In addition, both the launch and ongoing success of new products and advertising campaigns are inherently uncertain, especially as to their appeal to consumers. Our failure to successfully launch new products could decrease demand for our existing products by negatively affecting consumer perception of existing brands, as well as result in inventory write-offs and other costs.

Any damage to our reputation could have an adverse effect on our business, financial condition and results of operations.

Maintaining a good reputation globally is critical to selling our branded products. If we fail to maintain high standards for product quality, safety

Maintaining a good reputation globally is critical to selling our branded products.

and integrity, our reputation could be jeopardized. Adverse publicity about these types of concerns or the incidence of product contamination or tampering, whether or not valid, may reduce demand for our products or cause production and delivery disruptions. If any of our products becomes unfit for consumption, misbranded or causes injury, we may have to engage in a product recall and/or be subject to liability. A

widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time, which could further reduce consumer demand and brand equity. Failure to maintain high ethical, social and environmental standards for all of our opera-

tions and activities or adverse publicity regarding our responses to health concerns, our environmental impacts, including agricultural materials, packaging, energy and water use and waste management, or other sustainability

issues, could also jeopardize our reputation. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial statement information could also hurt our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these reasons could have a material adverse effect on our business, financial condition and results of operations, as well as require additional resources to rebuild our reputation.

If we are not able to build and sustain proper information technology infrastructure, our business could suffer.

We depend on information technology as an enabler to improve the effectiveness of our operations and to interface with our customers, as well as to maintain financial accuracy and efficiency. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through security breach.

We have embarked on a multi-year Business Process Transformation (BPT) initiative that includes the delivery of an SAP enterprise resource planning application, as well as the migration to common business processes across our operations. There can be no certainty that these programs will deliver the expected benefits. The failure to deliver our goals may impact our ability to (1) process transactions accurately and efficiently and (2) remain in step with the changing needs of the trade, which could result in the loss of customers. In addition, the failure to either deliver the application on time, or anticipate the necessary readiness and training needs, could lead to business disruption and loss of customers and revenue.

Our information systems could also be penetrated by outside parties intent on extracting information, corrupting

information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets.

Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.

Our ability and that of our suppliers, business partners, including bottlers, contract manufacturers, independent distributors and retailers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics such as avian flu, strikes or other reasons, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

Trade consolidation, the loss of any key customer, or failure to maintain good relationships with our bottling partners could adversely affect our financial performance.

We must maintain mutually beneficial relationships with our key customers, including our retailers and bottling partners, to effectively compete. There is a greater concentration of our customer base around the world generally due to the continued consolidation of retail trade. As retail ownership becomes more concentrated, retailers demand lower pricing and increased promotional programs. Further, as larger retailers increase utilization of their own distribution networks and private label brands, the competitive advantages we derive from our go-to-market systems and brand equity may be eroded. Failure to appropriately respond to these trends or to offer effective sales incentives and marketing

programs to our customers could reduce our ability to secure adequate shelf space at our retailers and adversely affect our financial performance.

Retail consolidation continues to increase the importance of major customers. Sales to Wal-Mart represent approximately 9% of our total net revenue; and our top five retail customers currently represent approximately 26%

We must maintain mutually beneficial relationships with our key customers, including our retailers and bottling partners, to effectively compete.

of our 2006 North American net revenue, with Wal-Mart representing approximately 13%. These percentages include concentrate sales to our bottlers which are used in finished goods sold by them to these retailers. Loss of any of our key customers, including Wal-Mart, could have an adverse effect on our business, financial condition and results of operations.

Furthermore, if we are unable to provide an appropriate mix of incentives to our bottlers through a combination of advertising and marketing support, they may take actions that, while maximizing their own short-term profit, may be detrimental to us or our brands. Such actions could have an adverse effect on our profitability. See "Our Customers," "Our Related Party Bottlers" and Note 8 to our consolidated financial statements for more information on our customers, including our anchor bottlers.

Our business may be adversely impacted by unfavorable economic or environmental conditions or political or other developments and risks in the countries in which we operate.

Unfavorable global economic or environmental changes, political conditions or other developments may result in business disruption, supply constraints, foreign currency devaluation, inflation, deflation or decreased demand. Unstable economic and political conditions or civil unrest in the countries in which we operate could have adverse impacts on our business results or financial condition. Our operations outside of the U.S. accounted for 41% and 36% of our net revenue and operating profit, respectively, for the year ended December 30, 2006. Our continued success depends on our ability to broaden and strengthen our presence in emerging markets, such as Brazil, Russia, India and China, and to create scale in key international markets.

Regulatory decisions and changes in the legal and regulatory environment could increase our costs and liabilities or limit our business activities.

The conduct of our businesses, and the production, distribution, sale, advertising, labeling, safety, transportation and use of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to foreign laws and regulations administered by government entities and agencies in markets in which we operate. These laws and regulations may change, sometimes dramatically, as a result of political, economic or social events. Such regulatory environment changes include changes in food and drug laws, laws related to advertising and deceptive marketing practices, accounting standards, taxation requirements, competition laws and environmental laws, including laws relating to the regulation of water rights and treatment. Changes in laws, regulations or governmental policy and the related

interpretations may alter the environment in which we do business and, therefore, may impact our results or increase our costs or liabilities.

In particular, governmental bodies in jurisdictions where we operate may impose new labeling, product or production requirements, or other restrictions. For example, Proposition 65 in California requires that a warning be given for any product that exposes consumers to a substance listed by the state as having been found to cause cancer or birth defects. If we were required to label any of our products or place warnings in locations where our products are sold in California under Proposition 65,

Our operations outside of the U.S. accounted for 41% and 36% of our net revenue and operating profit, respectively, for the year ended December 30, 2006.

sales of those products could suffer not only in California but elsewhere as a result of the adverse publicity.

In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions. Regulatory authorities under whose laws we operate may also have enforcement powers that can subject us to actions such as product recall, seizure of products or other sanctions, which could have an adverse effect on our sales or damage our reputation.

If we are unable to hire or retain key employees or outsource certain functions effectively, it could have a negative impact on our business.

Our continued growth requires us to develop our leadership bench and to implement programs, such as our long-term incentive program, designed to retain talent. However, there is no assurance that we will continue to be able to hire or retain key employees. We compete to hire new employees, and then must train them and develop their skills and competencies. Our oper-

ating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any unplanned turnover could deplete our institutional knowledge base and erode our competitive advantage.

In addition, we have outsourced certain information technology support services and administrative functions, such as payroll processing and benefit plan administration, to third-party service providers and may outsource other functions in the future to achieve cost savings and efficiencies. If the service providers that we outsource these func-

tions to do not perform effectively we may not be able to achieve the expected cost savings and may have to incur additional costs to correct errors made by such service providers. Depending on the function involved, such errors may also lead to business dis-

ruption, processing inefficiencies or the loss of or damage to intellectual property through security breach, or harm employee morale.

Our operating results may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.

We and our business partners use various raw materials and other supplies in our business, including aspartame, cocoa, corn, corn sweeteners, flavorings, flour, grapefruits and other fruits, juice and juice concentrates, oats, oranges, potatoes, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. Our key packaging materials include aluminum used for cans, PET resin used for plastic bottles, film packaging used for snack foods, and cardboard. Fuel and natural gas are also important commodities due to their use in our plants and in the trucks delivering our products. Some of these raw materials and supplies are available from a limited number of suppliers. We are exposed to the market risks arising

from adverse changes in commodity prices, affecting the cost of our raw materials and energy. The raw materials and energy which we use for the production of our products are largely commodities that are subject to price volatility and fluctuations in availability caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. We purchase these materials and energy mainly in the open market. If commodity price changes result in unexpected increases in raw materials and energy costs, we may not be able to increase our prices to offset these increased costs without suffering reduced volume, revenue and operating income.

Our profitability may also be adversely impacted due to water scarcity and regulation. Water is a limited resource in many parts of the world. As demand for water continues to increase, we and our business part-

ners may face disruption of supply or increased costs to obtain the water needed to produce our products.

Our business could suffer if we are unable to compete effectively.

Our businesses operate in highly competitive markets. We compete against global, regional and private label manufacturers on the basis of price, quality, product variety and effective distribution. Increased competition and anticipated actions by our competitors could lead to downward pressure on prices and/or a decline in our market share, either of which could adversely affect our results. See "Our Competition" for more information about our competitors.

Forward-Looking and Cautionary Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations. We undertake no obligation to update any forward-looking statement. The above discussion of risks is by no means all inclusive but is designed to highlight what we believe are important factors to consider when evaluating our trends and future results.

Market Risks

We are exposed to the market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy.
- foreign exchange rates.
- interest rates.
- stock prices, and
- discount rates affecting the measurement of our pension and retiree medical liabilities.

In the normal course of business, we manage these risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging strategies. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost saving opportunities or efficiencies. Our global purchasing programs include fixed-price purchase orders and pricing agreements. Our hedging strategies include the use of derivatives. Certain derivatives are des-

ignated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. We do not use derivative instruments for trading or speculative purposes, and we limit our exposure to individual counterparties to manage credit risk. The fair value of our derivatives fluctuates based on market rates and prices. The sensitivity of our derivatives to these market fluctuations is discussed below. See Note 10 for fur-

ther discussion of these derivatives and our hedging policies. See "Our Critical Accounting Policies" for a discussion of the exposure of our pension plan assets and pension and retiree medical liabilities to risks related to stock prices and discount rates.

Inflationary, deflationary and recessionary conditions impacting these market risks also impact the demand for and pricing of our products.

Commodity Prices

Our open commodity derivative contracts that qualify for hedge accounting had a face value of \$55 million at December 30, 2006 and \$89 million at December 31, 2005. The open derivative contracts that qualify for hedge accounting resulted in net unrealized gains of less than \$1 million at December 30, 2006 and \$39 million at December 31, 2005. We estimate that a 10% decline in commodity prices would have reduced our unrealized gains on open contracts to \$2 million of unrealized losses in 2006 and \$35 million of unrealized gains in 2005.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of \$196 million at December 30, 2006 and \$129 million at December 31, 2005. The open derivative contracts that do not qualify for hedge accounting resulted in net losses of \$28 million in 2006 and \$3 million in 2005. We estimate that a 10% decline in commodity prices would have increased our net losses on open contracts to \$31 million in 2006 and \$4 million in 2005.

We expect to be able to continue to reduce the impact of increases in our raw material and energy costs through our hedging strategies and ongoing productivity initiatives.

Foreign Exchange

Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within shareholders' equity under the caption currency translation adjustment.

Our operations outside of the U.S. generate approximately 40% of our net revenue, with Mexico, the United Kingdom and Canada comprising approximately 20% of our net revenue. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During 2006, net favorable foreign currency, primarily due to appreciation in the Canadian dollar and Brazilian real,

may enter into derivatives to manage our exposure to foreign currency transaction risk. Our foreign currency derivatives had a total face value of \$1.0 billion at December 30, 2006 and \$1.1 billion at December 31, 2005. The contracts that qualify for hedge accounting resulted in net unrealized losses of \$6 million at December 30, 2006 and \$9 million at December 31, 2005. We estimate that an unfavorable 10% change in the exchange rates would have resulted in unrealized losses of \$86 million in 2006 and \$81 million in 2005. The contracts not meeting the criteria for hedge accounting resulted in net losses of \$10 million in 2006 and net gains of \$14 million in 2005. All losses and gains were offset by changes in the underlying hedged items, resulting in no net impact on earnings.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We may use interest rate and cross currency interest rate swaps to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. Our counterparty credit risk is considered low because these swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration.

Assuming year-end 2006 and 2005 variable rate debt and investment levels, a 1-percentage-point increase in interest rates would have decreased net interest expense by \$10 million in 2006 and \$8 million in 2005.

Stock Prices

A portion of our deferred compensation liability is tied to certain market indices and our stock price. We manage these market risks with mutual fund

investments and prepaid forward contracts for the purchase of our stock. The combined gains or losses on these investments are substantially offset by changes in our deferred compensation liability.

Our Approach to Managing Risks

The achievement of our strategic and operating objectives will necessarily involve taking risks. Our risk management process is intended to ensure that risks are taken knowingly and purposefully. As such, we leverage an integrated risk management framework to identify, assess, prioritize, manage, monitor and communicate risks across the Company. This framework includes:

- the PepsiCo Executive Risk Council (PERC), comprised of a cross-functional, geographically diverse, senior management group which identifies, assesses, prioritizes and addresses strategic and reputational risks;
- Division Risk Committees (DRCs), comprised of cross-functional senior management teams which meet regularly each year to identify, assess, prioritize and address division-specific operating risks;
- PepsiCo's Risk Management Office, which manages the overall risk management process, provides ongoing guidance, tools and analytical support to the PERC and the DRCs, identifies and assesses potential risks, and facilitates ongoing communication between the parties, as well as to PepsiCo's Audit Committee and Board of Directors; and
- PepsiCo Corporate Audit, which confirms the ongoing effectiveness of the risk management framework through periodic audit and review procedures.

In 2006, we continued to focus our mitigation efforts where it was determined that actions were necessary and appropriate to further reduce PepsiCo's exposure to risks, integrating those efforts in our businesses' operating plans and budgets, where accountabil-

We do not use derivative instruments for trading or speculative purposes.

contributed almost 1 percentage point to net revenue growth. Currency declines which are not offset could adversely impact our future results.

Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. We

ity is assigned and performance measured. Some highlights include:

- To address certain risks related to the demand for our products, such as consumer health concerns about product attributes and ingredients, we continued to focus on the development of products that respond to consumer trends, including formulating products to lower sugar, fats, and sodium and adding ingredients and new products that can deliver nutritional benefits. For example, at FLNA we introduced a new portion control line of 100-calorie offerings, and we also switched to NuSun sunflower oil, an oil containing 90% mono- and polyunsaturated fats and less saturated fat than most other cooking oils, for our Lay's and Ruffles potato chips. Internationally, we reduced the amount of saturated fats in our Walkers crisps in the United Kingdom by 70% and the amount of salt by 25%. Beyond providing more nutritious product choices, and in an effort to help address the growing concerns regarding childhood obesity trends in the U.S., we joined with the Alliance for a Healthier Generation — a joint initiative of the William J. Clinton Foundation and the American Heart Association — to set voluntary beverage guidelines for U.S. schools that limit portion sizes and establish voluntary guidelines for snacks and side items in U.S. schools.
- To help ensure that we maintain our reputation for providing safe convenient foods and beverages, we enhanced the coordination of our division-led product integrity efforts through the PepsiCo Product Integrity Council (PPIC), a cross-functional forum to share leading practices and confer about areas of potential risk. Through the PPIC, we completed a third-party review of our food safety and food security programs which helped identify opportunities to better leverage internal best practices across all of our businesses. Furthermore, we enhanced our product sampling and testing protocols.
- We continued to enhance our information technology infrastructure and

application systems by upgrading our networks and updating or retiring older infrastructure and systems. We signed a multi-year managed services contract to consolidate PI's technology infrastructure into three data centers and another multi-year services contract to provide and manage PI's data network. The data center services will provide full system and data protection and backup and recovery capabilities, and the data network services will enhance security and provide 24x7x365 monitoring and response capabilities. We expect to fully implement both of these service contracts over the next three years.

We continued to focus on leveraging diversity and inclusion, ensuring we have the talent base necessary to lead our growing businesses.

- With respect to our BPT initiative, we continue to build on our learnings and incorporate these into the metrics used to monitor the project. Specific actions taken this year include revising the overall project structure, project resources and timelines. We also continue to invest in process and control resources to build a more automated control environment that remains compliant with the Sarbanes-Oxley Act.
- To address supply chain risks, we continued to assess our capability to mitigate potential business disruptions and increased the coordination of our efforts across IT disaster recovery, crisis management and business continuity. Having recognized the potentially significant impact of a pandemic such as avian influenza on our employees and our business, we formed a cross-functional, cross-divisional Pandemic Planning Team that worked to develop strategies and tactics to mitigate that impact.
- Against a challenging trade environment, we continued to work to ensure consistent and equitable trade

practices across our customers, to deliver value-added product innovation and differentiation, to achieve the most effective trade spend across customers and channels through productivity programs, and to more effectively communicate to our customers the economic advantages of our direct-store-delivery (DSD) system.

- To address risks relating to legal and regulatory issues, we have launched an enhanced PepsiCo Code of Conduct training program in multiple languages. We also improved the functionality of our employee hotline to better enable reporting of compliance and ethics concerns and enhanced our process for handling reported incidents and ensuring appropriate corrective action. Furthermore, we completed environmental and health & safety audits that will help focus our mitigation efforts in these areas going forward.
- As part of our ongoing efforts to maintain a talented workforce, we continued to focus on leveraging diversity and inclusion, designing the right organizational model to meet our business needs and ensuring we have the talent base necessary to lead our growing businesses. Tactically, we worked to expand the breadth and depth of our succession plans and reinforced our focus on managing our people through an increased emphasis on people development as part of our performance management process.
- To manage our risks related to raw materials, we continued to reduce our input cost volatility across our total portfolio by employing various hedging strategies where appropriate and as market opportunities arose. We also continued to utilize our scale to achieve maximum value across our commodity portfolio and to ensure adequate supply. In addition, we have developed strategic global supplier solutions to help minimize volatility.

Our Critical Accounting Policies

An appreciation of our critical accounting policies is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. Other than our accounting for pension plans, our critical accounting policies do not involve the choice between alternative methods of accounting. We applied our critical accounting policies and estimation methods consistently in all material respects, and for all periods presented, and have discussed these policies with our Audit Committee.

In connection with our ongoing BPT initiative, we aligned certain accounting policies across our divisions in 2005. We conformed our methodology for calculating our bad debt reserves and modified our policy for recognizing revenue for products shipped to customers by third-party carriers. Additionally, we conformed our method of accounting for certain costs, primarily warehouse and freight. These changes reduced our net revenue by \$36 million and our operating profit by \$60 million in 2005.

Our critical accounting policies arise in conjunction with the following:

- revenue recognition,
- brand and goodwill valuations,
- income tax expense and accruals,
- stock-based compensation expense, and
- pension and retiree medical plans.

Revenue Recognition

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the U.S., and generally within 30 to 90 days internationally, and may allow discounts for early payment. We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for warehouse-distributed products is to replace damaged and out-of-date products. Based on our historical experience with this practice, we have reserved for anticipated damaged and out-of-date products. Our bottlers have a similar replacement policy and are responsible for the products they distribute.

Our policy is to provide customers with product when needed. In fact, our commitment to freshness and product dating serves to regulate the quantity of product shipped or delivered. In addition, DSD products are placed on the shelf by our employees with customer shelf space limiting the quantity of product. For product delivered through our other distribution networks, customer inventory levels are monitored.

Our credit terms typically require payment within 30 days of delivery in the U.S., and generally within 30 to 90 days internationally.

As discussed in "Our Customers," we offer sales incentives and discounts through various programs to customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled \$10.1 billion in

2006, \$8.9 billion in 2005 and \$7.8 billion in 2004. Sales incentives include payments to customers for performing merchandising activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. A number of our sales incentives, such as bottler funding and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. The terms of most of our incentive arrangements do not exceed a year, and therefore do not require highly uncer-

tain long-term estimates. For interim reporting, we estimate total annual sales incentives for most of our programs and record a pro rata share in proportion to revenue. Certain arrangements, such as fountain pouring rights, may extend beyond one year. The costs incurred to obtain incentive arrangements are recognized over no longer

than the contract period as a reduction of revenue, and the remaining balances of \$297 million at year-end 2006 and \$321 million at year-end 2005 are included in current assets and other assets on our balance sheet.

We estimate and reserve for our bad debt exposure based on our experience with past due accounts. In 2005, our

method of determining the reserves was conformed across our divisions in connection with our BPT initiative, as discussed above. Bad debt expense is classified within selling, general and administrative expenses in our income statement.

Brand and Goodwill Valuations

We sell products under a number of brand names, many of which were developed by us. The brand development costs are expensed as incurred. We also purchase brands and goodwill in acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including brands, based on estimated fair value, with any remaining purchase price recorded as goodwill.

We believe that a brand has an indefinite life if it has significant market share in a stable macroeconomic environment and a history of strong revenue and cash flow performance that we expect to continue for the foreseeable future. If these perpetual brand criteria are not met, brands are amortized over their expected useful lives, which generally range from five to 40 years. Determining the expected life of a brand requires considerable management judgment and is based on an evaluation of a number of factors, including the competitive environment, market share, brand history and the macroeconomic environment of the countries in which the brand is sold.

Perpetual brands and goodwill, including the goodwill that is part of our noncontrolled bottling investment balances, are not amortized. Perpetual brands and goodwill are assessed for impairment at least annually. If the carrying amount of a perpetual brand exceeds its fair value, as determined

by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. Goodwill is evaluated using a two-step impairment test at the reporting unit level. A reporting unit can be a division or business within a division. The first step compares the book value of a reporting unit, including goodwill, with its fair value, as determined by its discounted cash flows. If the book value of a reporting unit exceeds its fair value, we complete the second step to determine the amount of goodwill impairment loss that we should record. In the second step, we determine an implied fair

We did not recognize any impairment charges for perpetual brands or goodwill in the years presented.

value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of that goodwill.

Amortizable brands are only evaluated for impairment upon a significant change in the operating or macroeco-

omic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. These assumptions could be adversely impacted by certain of the risks discussed in "Our Business Risks."

We did not recognize any impairment charges for perpetual brands or goodwill in the years presented. As of December 30, 2006, we had \$5.8 billion of perpetual brands and goodwill, of which approximately 65% related to Tropicana and Walkers.

Income Tax Expense and Accruals

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit. See Note 5 for additional information regarding our tax reserves.

An estimated effective tax rate for a year is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as that item. We consider the tax benefits from the resolution of prior year tax matters to be such items.

In 2006, we recognized non-cash tax benefits of \$602 million (the "2006 Tax Adjustments"), substantially all of which related to the Internal Revenue Service's (IRS) examination of our consolidated income tax returns for the years 1998 through 2002. The IRS issued a Revenue Agent's Report (RAR), and we are in agreement with their conclusion, except for one matter which we continue to dispute. The agreed adjustments relate to transfer pricing and various other transactions, including certain acquisitions, the public offering

of PBG, as well as the restructuring of our international snack foods operations during that audit period.

Tax law requires items to be included in our tax returns at different times than the items are reflected in our financial statements. As a result, our annual tax rate reflected in our financial statements is different than that reported in our tax returns (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit in our income statement. We establish valuation allowances for our deferred tax assets when we believe expected future taxable income is not likely to support the use of a deduction or credit in that tax jurisdiction. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, or expense for which we have already taken a deduction in our tax return but have not yet recognized as expense in our financial statements.

The American Jobs Creation Act of 2004 (AJCA) created a one-time incentive for U.S. corporations to repatriate undistributed international earnings by providing an 85% dividends received deduction. In 2005, we repatriated approximately \$7.5 billion in earnings previously considered indefinitely rein-

vested outside the U.S. and recorded income tax expense of \$460 million related to this repatriation. Other than the earnings repatriated, we intend to continue to reinvest earnings outside the U.S. for the foreseeable future and, therefore, have not recognized any U.S. tax expense on these earnings. At December 30, 2006, we had approximately \$10.8 billion of undistributed international earnings.

In 2006, our annual tax rate was 19.3% compared to 36.1% in 2005 as discussed in "Other Consolidated Results." The tax rate in 2006 decreased 16.8 percentage points primarily reflecting the 2006 Tax Adjustments, the absence of the 2005 AJCA tax charge and the resolution of certain state income tax audits in the current year. In 2007, our annual tax rate is expected to be 27.7%, primarily reflecting the absence of the 2006 Tax Adjustments.

Stock-Based Compensation Expense

We believe that we will achieve our best results if our employees act and are rewarded as business owners. Therefore, we believe stock ownership and stock-based incentive awards are the best way to align the interests of employees with those of our shareholders. A majority of our employees participate in our stock-based compensation programs. Stock option grants are made at the current stock price, meaning each employee's exercise price is equivalent to our stock price on the date of grant. Employees must generally provide three additional years of service to earn the grant, referred to as the vesting period. Our options generally have a 10-year term, which means our employees would have up to seven years after the vesting period to elect to pay the exercise price to purchase one share of our stock for each option exercised. Employees benefit from stock options to the extent our stock price appreciates above the exercise price after vesting and during the term of the grant. There have been no reductions to the exercise price of previously issued awards, and any repricing of awards would require approval of our shareholders.

Executives who are awarded long-term incentives based on their performance are offered the choice of stock options or restricted stock units (RSUs). Executives who elect RSUs receive one RSU for every four stock options that would have otherwise been granted. Senior officers do not have a choice and are granted 50% stock options and 50% RSUs. RSU expense is based on the fair value of PepsiCo stock on the date of grant and is amortized over the vesting period, generally three years. Each RSU is settled in a share of our stock after the vesting period. Vesting of RSU awards

for senior officers is contingent upon the achievement of pre-established performance targets.

We also continued, as we have since 1989, to grant an annual award of stock options to all eligible employees, based on job level or classification, under our broad-based stock option program, SharePower. SharePower awards generally have a 10-year term and vest over three years.

Method of Accounting

We account for our employee stock options, which include grants under our executive program and broad-based SharePower program, under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. All stock grants have an exercise price equal to the fair market value of our common stock on the date of grant. The fair value of stock option grants is amortized to expense over the vesting period.

recognized in excess of tax benefits previously established upon grant are reported as a financing cash inflow. Prior to adoption, such excess tax benefits were reported as an operating cash inflow.

Our divisions are held accountable for stock-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost. The allocation of stock-based compensation expense in 2006 was approximately 28% to FLNA, 19% to PBNA, 32% to PI, 4% to QFNA and 17% to corporate unallocated expenses. The expense allocated to our divisions excludes any impact of changes in our Black-Scholes assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

On January 1, 2006, we adopted SFAS 123R, *Share-Based Payment*. Since we had previously accounted for our stock-based compensation under the fair value method, our adoption did not significantly impact our financial position or our results of operations.

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, under the modified prospective method. Since we had previously accounted for our stock-based compensation plans under the fair value provisions of SFAS 123, our adoption did not significantly impact our financial position or our results of operations. Under SFAS 123R, actual tax benefits

Our Assumptions

Our Black-Scholes model estimates the expected value our employees will receive from the options based on a number of assumptions, such as interest rates, employee exercises, our stock price and dividend yield. Our weighted-average fair value assumptions include:

	Estimated 2007	2006	2005	2004
Expected life	6 yrs.	6 yrs.	6 yrs.	6 yrs.
Risk free interest rate	5.7%	4.5%	3.8%	3.3%
Expected volatility	18%	18%	23%	26%
Expected dividend yield	1.9%	1.9%	1.8%	1.8%

The expected life is a significant assumption as it determines the period for which the risk free interest rate, volatility and dividend yield must be applied. The expected life is the period over which our employee groups are expected to hold their options. It is based on our historical experience with similar grants. The risk free interest rate is based on the expected U.S. Treasury rate over the expected life. Volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life. Dividend yield is estimated over the expected life based on our stated dividend policy and forecasts of net income, share repurchases and stock price.

2007 Estimated Expense and Sensitivity of Assumptions

Our stock-based compensation expense, including RSUs, is as follows:

	Estimated 2007	2006	2005
Stock-based compensation expense	\$271	\$270	\$311

If we assumed a 100-basis-point change in the following assumptions, our estimated 2007 stock-based compensation expense would increase/(decrease) as follows:

	100-Basis-Point Increase	100-Basis-Point Decrease
Risk free interest rate	\$6	\$(6)
Expected volatility	\$1	\$(1)
Expected dividend yield	\$(9)	\$10

If the expected life were assumed to be one year longer, our estimated 2007 stock-based compensation expense would increase by \$7 million. If the expected life were assumed to be one year shorter, our estimated 2007 stock-based compensation expense would decrease by \$8 million. As noted, changing the assumed expected life impacts all of the Black-Scholes valuation assumptions as the risk free interest rate, expected volatility and expected dividend yield are estimated over the expected life.

Pension and Retiree Medical Plans

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts that vary based upon years of service, with retirees contributing the remainder of the cost.

On December 30, 2006, we adopted SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158 requires that we recognize the overfunded or underfunded status of our pension and retiree medical plans (our Plans) as an asset or liability on our December 30, 2006 balance sheet. Subsequent changes in the funded status will be recognized in comprehensive income in the year in which they occur. SFAS 158 also requires that, beginning in 2008, our assumptions used to measure our annual pension and retiree medical expenses be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. Currently, the assumptions used to measure our annual pension and retiree medical expenses are determined as of September 30 (measurement date) and all plan assets and liabilities are generally reported as of that date. In accordance with SFAS 158, prior year amounts have not been adjusted. For further information regarding the impact of our adoption of SFAS 158, see Note 7.

Our Assumptions

The determination of pension and retiree medical plan obligations and related expenses requires the use of

assumptions to estimate the amount of the benefits that employees earn while working, as well as the present value of those benefits. Annual pension and retiree medical expense amounts are principally based on four components: 1) the value of benefits earned by employees for working during the year (service cost), 2) increase in the liability due to the passage of time (interest cost), and 3) other gains and losses as discussed below, reduced by 4) expected return on plan assets for our funded plans.

Significant assumptions used to measure our annual pension and retiree medical expenses include:

- the interest rate used to determine the present value of liabilities (discount rate);
- certain employee-related factors, such as turnover, retirement age and mortality;
- for pension expense, the expected return on assets in our funded plans and the rate of salary increases for plans where benefits are based on earnings; and
- for retiree medical expense, health care cost trend rates.

Our assumptions reflect our historical experience and management's best judgment regarding future expectations. Due to the significant management

judgment involved, our assumptions could have a material impact on the measurement of our pension and retiree medical benefit expenses and obligations.

At each measurement date, the discount rate is based on interest rates for high-quality, long-term corporate debt securities with maturities comparable to those of our liabilities. In the U.S., we

use the Moody's Aa Corporate Index yield and adjust for differences between the average duration of the bonds in this Index and the average duration of our benefit liabilities, based upon a published index.

The expected return on pension plan assets is based on our historical experience, our pension plan investment strategy and our expectations for long-term rates of return. Our pension plan investment strategy is reviewed annually and is established based upon plan liabilities, an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. We use a third-party advisor to assist us in determining our investment allocation and modeling our long-term rate of return assumptions. Our current investment allocation target for our U.S. plans is 60% in equity securities, with the balance in fixed income securities. Our expected long-term rate of return on U.S. plan assets is 7.8%, reflecting estimated long-term rates of return of 9.3% from equity securities and 5.8% from fixed income securities. We use a market-related value method that recognizes each year's asset gain or loss over a five-year period. Therefore, it takes five years for the gain or loss from any one year to be fully included in the other gains and losses calculation described below.

Other gains and losses resulting from actual experience differing from our assumptions and from changes in our assumptions are also determined at each measurement date. If this net accumulated gain or loss exceeds 10% of the greater of plan assets or liabilities, a portion of the net gain or loss is included in expense for the following year. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in earnings on a straight-line basis over the average remaining service period of those employees expected to benefit, which is approximately 11 years for pension expense and approximately 13 years for retiree medical.

SFAS 158 requires that we recognize the overfunded or underfunded status of our pension and retiree medical plans as an asset or liability on our December 30, 2006 balance sheet.

Weighted-average assumptions for pension and retiree medical expenses are as follows:

	2007	2006	2005
Pension			
Expense discount rate	5.7%	5.6%	6.1%
Expected rate of return on plan assets	7.7%	7.7%	7.8%
Expected rate of salary increases	4.5%	4.4%	4.3%
Retiree medical			
Expense discount rate	5.8%	5.7%	6.1%
Current health care cost trend rate	9.0%	10.0%	11.0%

Future Expense

The estimated changes in pension and retiree medical expense are as follows:

	Pension	Retiree Medical
2006 expense	\$417	\$127
Increase in discount rate	(15)	(2)
(Decrease)/Increase in experience loss amortization	(1)	1
Impact of contributions	(2)	—
Other	(3)	4
2007 estimated expense	\$396	\$130

Pension and retiree medical service costs, measured at a fixed discount rate but including the effect of demographic assumption changes, as well as the effects of gains and losses due to demographics, are reflected in division results for North American employees. Division results also include interest costs, measured at a fixed discount rate, for retiree medical plans. Interest costs for the pension plans, measured at a fixed discount rate, and the effect of changes in discount rates, gains and losses other than those due to demographics, pension asset returns and the impact of pension funding are all reflected in corporate unallocated expenses.

Based on our current assumptions, which reflect our prior experience, current plan provisions and expectations for future experience, we expect our pension expense to decrease slightly in 2008, declining to approximately \$360 million by 2012 as unrealized losses are amortized. If our assumptions and our plan provisions for retiree medical costs remain unchanged and our experience mirrors these assumptions, we expect our annual retiree medical expense beyond 2007 to approximate \$130 million.

Sensitivity of Assumptions

A decrease in the discount rate or in the expected rate of return assumptions

would increase pension expense. The estimated impact of a 25-basis-point decrease in the discount rate on 2007 pension expense is an increase of approximately \$37 million. The estimated impact on 2007 pension expense of a 25-basis-point decrease in the expected rate of return is an increase of approximately \$16 million.

See Note 7 regarding the sensitivity of our retiree medical cost assumptions.

Future Funding

We make contributions to pension trusts maintained to provide plan benefits for certain pension plans. These contributions are made in accordance with applicable tax regulations that provide for current tax deductions for our contributions, and taxation to the employee only upon receipt of plan benefits. Generally, we do not fund our pension plans when our contributions would not be currently deductible.

Our pension contributions for 2006 were \$59 million, all of which were non-discretionary. In 2007, we expect to make contributions of up to \$150 million with up to \$75 million expected to be discretionary. Our cash payments for retiree medical are estimated to be approximately \$85 million in 2007. As our retiree medical plans are not subject to regulatory funding requirements, we fund these plans on a pay-as-you-go basis. For estimated future benefit payments, including our pay-as-you-go payments as well as those from trusts, see Note 7.

Recent Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that we quantify misstatements based on their impact on each of our financial statements and related disclosures. On December 30, 2006, we adopted SAB 108. Our adoption of SAB 108 did not impact our financial statements.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of our 2007 fiscal year, with the cumulative effect of the change in accounting prin-

ciple recorded as an adjustment to opening retained earnings. We do not expect our adoption of FIN 48 to materially impact our financial statements.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact of adopting SFAS 157 on our financial statements.

Our Financial Results

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following items:

	2006	2005
Net revenue		
53rd week	-	\$418
Operating profit		
2006 restructuring and impairment charges	\$(67)	-
53rd week	-	\$75
2005 restructuring charges	-	\$(83)
Net income		
2006 restructuring and impairment charges	\$(43)	-
2006 Tax Adjustments	\$602	-
PepsiCo share of PBG tax settlement	\$18	-
AJCA tax charge	-	\$(460)
53rd week	-	\$57
2005 restructuring charges	-	\$(55)
Net income per common share — diluted		
2006 restructuring and impairment charges	\$(0.03)	-
2006 Tax Adjustments	\$0.36	-
PepsiCo share of PBG tax settlement	\$0.01	-
AJCA tax charge	-	\$(0.27)
53rd week	-	\$0.03
2005 restructuring charges	-	\$(0.03)

For the items affecting our 2004 results, see Notes 3 and 5, as well as our 2005 Annual Report.

53rd week

In 2005, we had an additional week of results (53rd week). Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years.

2006 Restructuring and Impairment Charges

In 2006, we incurred a charge of \$67 million in conjunction with consolidating the manufacturing network at FLNA by closing two plants in the U.S., and rationalizing other assets, to increase manufacturing productivity and supply chain efficiencies.

2005 Restructuring Charges

In 2005, we incurred restructuring charges of \$83 million to reduce costs in our operations, principally through headcount reductions.

2006 Tax Adjustments

In 2006, we recognized non-cash tax benefits of \$602 million, substantially all of which related to the IRS's examination of our consolidated tax returns for the years 1998 through 2002.

PepsiCo Share of PBG Tax Settlement

In 2006, the IRS concluded its examination of PBG's consolidated income tax returns for the years 1999 through 2000 (PBG's Tax Settlement). Consequently, a

non-cash benefit of \$21 million was included in bottling equity income as part of recording our share of PBG's financial results.

AJCA Tax Charge

In 2005, we repatriated approximately \$7.5 billion in earnings previously considered indefinitely reinvested outside the U.S. in connection with the AJCA and recorded income tax expense of \$460 million related to this repatriation.

Results of Continuing Operations – Consolidated Review

In the discussions of net revenue and operating profit below, *effective net pricing* reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

Servings

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

In 2006, total servings increased 5.5% over the prior year, as servings for beverages worldwide grew over 6% and servings for snacks worldwide grew 5%. All of our divisions positively contributed to the total servings growth. In 2005, total servings increased 7% compared to 2004, as servings for beverages worldwide grew over 7% and servings for snacks worldwide grew 6%.

Net Revenue and Operating Profit

2006

Net revenue increased 8% primarily reflecting higher volume and positive effective net pricing across all divisions. The volume gains and the effective net pricing each contributed 3 percentage points to net revenue growth. Acquisitions contributed 1 percentage point and foreign exchange contributed almost 1 percentage point to net revenue growth. The absence of the prior year's additional week reduced net revenue by over 1 percentage point and reduced volume growth by almost 1 percentage point.

Total operating profit increased 9% and margin increased 0.1 percentage points. The operating profit gains reflect the net revenue growth, partially offset by the impact of higher raw material and energy costs across all divisions. The absence of the prior year's additional week reduced operating profit growth by over 1 percentage point.

2005

Net revenue increased 11% reflecting, across all divisions, increased volume, favorable effective net pricing and net favorable foreign currency movements. The volume gains contributed 6 percentage points, the effective net pricing contributed 3 percentage points and the net favorable foreign currency movements contributed over 1 percentage point. The 53rd week contributed over 1 percentage point to revenue growth and almost 1 percentage point to volume growth.

	2006	2005	2004	Change	
				2006	2005
Total net revenue	\$35,137	\$32,562	\$29,261	8%	11%
Operating profit					
FLNA	\$2,615	\$2,529	\$2,389	3%	6%
PBNA	2,055	2,037	1,911	1%	7%
PI	1,948	1,607	1,323	21%	21%
QFNA	554	537	475	3%	13%
Corporate unallocated	(733)	(788)	(689)	(7)%	14%
Restructuring and impairment charges	–	–	(150)		
Total operating profit	\$6,439	\$5,922	\$5,259	9%	13%
Total operating profit margin	18.3%	18.2%	18.0%	0.1	0.2

Total operating profit increased 13% and margin increased 0.2 percentage points. The operating profit gains primarily reflect leverage from the revenue growth, partially offset by higher selling and distribution (S&D) expenses and increased cost of sales, largely due to higher raw materials, energy and S&D labor costs, as well as higher advertising and marketing expenses. Total operating profit margin also benefited from a favorable comparison to prior year restructuring and impairment charges. The additional week in 2005 contributed over 1 percentage point to total operating profit growth.

Corporate Unallocated Expenses

Corporate unallocated expenses include the costs of our corporate headquarters, centrally-managed initiatives, such

as our BPT initiative in North America, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, and certain commodity derivative gains and losses, as well as profit-in-inventory elimination adjustments for our noncontrolled bottling affiliates and certain other items.

In 2006, corporate unallocated expenses decreased \$55 million primarily reflecting the absence of a non-recurring charge of \$55 million in the prior year to conform our method of accounting across all divisions, primarily for warehouse and freight costs. Higher costs associated with our BPT initiative of \$35 million, as well as the unfavorable comparison to the prior year's \$25 million gain in connection with the settlement of a class action

lawsuit related to our purchases of high fructose corn syrup from 1991 to 1995, were offset by the favorable impact of certain other corporate items.

In 2005, corporate unallocated expenses increased 14%. This increase primarily reflects higher costs associated with our BPT initiative which contributed 7 percentage points,

increased support behind health and wellness and innovation initiatives which contributed 5 percentage points, and Corporate departmental expenses and restructuring charges which each contributed 2 percentage points to the increase. In 2005, items of a non-recurring nature included charges of \$55 million to conform our method of

accounting across all divisions, primarily for warehouse and freight costs, and a gain of \$25 million in connection with the settlement of a class action lawsuit related to our purchases of high fructose corn syrup from 1991 to 1995. In 2004, we recorded a charge of \$50 million for the settlement of a contractual dispute with a former business partner.

Other Consolidated Results

Bottling equity income includes our share of the net income or loss of our noncontrolled bottling affiliates as described in "Our Customers." Our interest in these bottling investments may change from time to time. Any gains or losses from these changes, as well as other transactions related to our bottling investments, are also included on a pre-tax basis. We continue to sell shares of PBG stock to reduce our ownership to the level at the time of PBG's initial public offering, since our ownership has increased as a result of PBG's share repurchase program. We sold 10.0 million and 7.5 million shares of PBG stock in 2006 and 2005, respectively. The resulting lower ownership percentage reduces the equity income from PBG that we recognize.

2006

Bottling equity income increased 11% primarily reflecting a \$186 million pre-tax gain on our sale of PBG stock, which compared favorably to a \$126 million pre-tax gain in the prior year. The non-cash gain of \$21 million from our share of PBG's Tax Settlement was fully offset by lower equity income from our anchor bottlers in the current year, primarily resulting from the impact of their respective adoptions of SFAS 123R in 2006.

Net interest expense decreased 33% primarily reflecting higher average rates on our investments and lower debt balances, partially offset by lower investment balances and the impact of higher average rates on our borrowings.

				Change	
	2006	2005	2004	2006	2005
Bottling equity income	\$616	\$557	\$380	11%	46%
Interest expense, net	\$(66)	\$(97)	\$(93)	(33)%	4%
Annual tax rate	19.3%	36.1%	24.7%		
Net income — continuing operations	\$5,642	\$4,078	\$4,174	38%	(2)%
Net income per common share — continuing operations — diluted	\$3.34	\$2.39	\$2.41	40%	(1)%

The tax rate decreased 16.8 percentage points compared to prior year primarily reflecting the 2006 Tax Adjustments, the absence of the 2005 AJCA tax charge and the resolution of certain state income tax audits in the current year.

Net income increased 38% and the related net income per share increased 40%. These increases primarily reflect the 2006 Tax Settlement, the absence of the AJCA tax charge and our solid operating profit growth.

2005

Bottling equity income increased 46% reflecting \$126 million of pre-tax gains on our sales of PBG stock, as well as stronger bottler results.

Net interest expense increased 4% reflecting the impact of higher debt levels, substantially offset by higher investment rates and cash balances.

The tax rate increased 11.4 percentage points reflecting the \$460 million AJCA tax charge, as well as the absence

of income tax benefits of \$266 million recorded in 2004 related to a reduction in foreign tax accruals following the resolution of certain open tax items with foreign tax authorities and a refund claim related to prior U.S. tax settlements. This increase was partially offset by increased international profit which is taxed at a lower rate.

Net income from continuing operations decreased 2% and the related net income per common share from continuing operations decreased 1%. These decreases reflect the impact of the tax items discussed above, partially offset by our operating profit growth, increased bottling equity income, which includes the gain on our PBG stock sale, the impact of the 53rd week, a favorable comparison to prior year restructuring and impairment charges, and for net income per share, the impact of our share repurchases.

Results of Continuing Operations – Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. For additional information on these items and our divisions, see Note I.

	FLNA	PBNA	PI	QFNA	Total
Net Revenue, 2006	\$10,844	\$9,565	\$12,959	\$1,769	\$35,137
Net Revenue, 2005.....	\$10,322	\$9,146	\$11,376	\$1,718	\$32,562
<i>% Impact of:</i>					
Volume	1%	3% ^(a)	6% ^(a)	1%	3%
Effective net pricing	3	1	4	2	3
Foreign exchange	0.5	–	1	1	1
Acquisitions/divestitures.....	0.5	–	3	–	1
% Change^(b)	5%	5%	14%	3%	8%

	FLNA	PBNA	PI	QFNA	Total
Net Revenue, 2005	\$10,322	\$9,146	\$11,376	\$1,718	\$32,562
Net Revenue, 2004.....	\$9,560	\$8,313	\$9,862	\$1,526	\$29,261
<i>% Impact of:</i>					
Volume	4.5%	4% ^(a)	8% ^(a)	9%	6%
Effective net pricing	3	5	2.5	3	3
Foreign exchange	0.5	–	3	1	1
Acquisitions/divestitures.....	–	–	2	–	0.5
% Change^(b)	8%	10%	15%	13%	11%

(a) For beverages sold to our bottlers, volume growth is based on our concentrate shipments and equivalents.

(b) Amounts may not sum due to rounding.

Frito-Lay North America

	2006	2005	2004	% Change	
				2006	2005
Net revenue	\$10,844	\$10,322	\$9,560	5	8
Operating profit	\$2,615	\$2,529	\$2,389	3	6

2006

Net revenue grew 5% reflecting volume growth of 1% and positive effective net pricing due to salty snack pricing actions and favorable mix. Pound volume grew primarily due to double-digit growth in SunChips, Multipack and Quaker Rice Cakes. These volume gains

In 2006, FLNA volume grew primarily due to double-digit growth in SunChips, Multipack and Quaker Rice Cakes.

were partially offset by low-single-digit declines in trademark Lay's and Doritos. Overall, salty snacks revenue grew 5% with volume growth of 1%, and other macro snacks revenue grew 9% with volume growth of 6%. The Stacy's Pita Chip Company acquisition contributed approximately 0.5 percentage points to both revenue and volume growth. The absence of the prior year's additional week reduced volume and net revenue growth by 2 percentage points.

Operating profit grew 3% reflecting the net revenue growth. This growth was partially offset by higher commodity costs, primarily cooking oil and energy. Operating profit was also negatively impacted by almost 3 percentage points as a result of a fourth quarter charge for the consolidation of the manufacturing network, including the

closure of two plants and rationalization of other manufacturing assets. The absence of the prior year's additional week, which reduced operating profit growth by 2 percentage points, was largely offset by the impact of restructuring charges in the prior year to reduce costs in our operations, principally through headcount reductions.

Smart Spot eligible products represented approximately 15% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio had low-single-digit revenue growth.

2005

Net revenue grew 8% reflecting volume growth of 4.5% and positive effective net pricing driven by salty snack pricing actions and favorable mix on both salty and convenience foods products. Pound volume grew primarily due to mid-single-digit growth in trademark Lay's potato chips, high-single-digit growth in salty trademark Tostitos, double-digit growth in Santitas, mid-single-digit growth in trademark Cheetos, high-single-digit growth in Dips and Fritos, and double-digit growth in SunChips. These gains were partially offset by the discontinuance of Toastables and Doritos Rollitos. Overall, salty snacks revenue grew 8% with volume growth of 5%, and other macro snacks revenue grew 13% with

volume growth of 1%. Other macro snacks products revenue benefited from favorable mix. The additional week contributed 2 percentage points to volume and net revenue growth.

Operating profit grew 6% reflecting positive effective net pricing actions and volume growth. This growth was offset by higher S&D costs resulting from increased labor and benefit charges and fuel costs; higher cost of sales, driven by raw materials, natural gas and freight; and increased advertising and marketing costs. Operating profit was also

FLNA's Smart Spot eligible products experienced double-digit revenue growth in both 2006 and 2005.

negatively impacted by more than 1 percentage point as a result of fourth quarter charges to reduce costs in our operations, principally through headcount reductions. The additional week contributed 2 percentage points to operating profit growth.

Smart Spot eligible products represented approximately 13% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio had high-single-digit revenue growth.

PepsiCo Beverages North America

	2006	2005	2004	% Change	
				2006	2005
Net revenue	\$9,565	\$9,146	\$8,313	5	10
Operating profit	\$2,055	\$2,037	\$1,911	1	7

2006

Bottler case sales (BCS) volume grew 4%. The volume increase was driven by a 14% increase in non-carbonated beverages, partially offset by a 2% decline in CSDs. The non-carbonated portfolio performance was driven by double-digit growth in trademark Aquafina, Gatorade, Lipton ready-to-drink teas, Tropicana juice drinks and Propel. Tropicana Pure Premium experienced a low-single-digit decline in volume. The decline in CSDs reflects a low-single-digit decline in trademark Pepsi, partially offset by a mid-single-digit

In 2006, Smart Spot eligible products grew to over 70% of PBNA's total net revenue.

increase in trademark Sierra Mist and a low-single-digit increase in trademark Mountain Dew. Across the brands, regular CSDs experienced a low-single-digit decline and diet CSDs declined slightly. The additional week in 2005 had no significant impact on volume growth as bottler volume is reported based on a calendar month.

Net revenue grew 5%. Positive mix contributed to the revenue growth, reflecting the strength of non-carbonated beverages. Price increases taken in 2006, primarily on concentrate, Tropicana Pure Premium and fountain, were offset by overall higher trade spending. The absence of the prior year's additional week reduced net revenue growth by 1 percentage point.

Operating profit increased 1% primarily reflecting the net revenue growth and lower advertising and marketing expenses. Higher raw material costs, primarily oranges, increased supply chain costs in Gatorade and higher energy costs substantially offset the

operating profit increase. Total marketplace spending for the year increased, reflecting a shift from advertising and marketing spending to trade spending. Additionally, the impact of more-favorable settlements of trade spending accruals in 2005 was mostly offset by a favorable insurance settlement of \$29 million in 2006. The absence of the prior year's additional week, which reduced operating profit growth by 1 percentage point, was fully offset by the impact of charges taken in the fourth quarter of 2005 to reduce costs in our operations, principally through headcount reductions.

Smart Spot eligible products represented over 70% of net revenue. These products experienced high-single-digit revenue growth, while the balance of the portfolio declined in the low-single-digit range.

2005

Net revenue grew 10% and BCS volume grew 4%. The volume increase was driven by a 16% increase in non-carbonated beverages, partially offset by a 1% decline in CSDs. Within non-carbonated beverages, Gatorade, trademark Aquafina, Tropicana juice drinks, Propel and SoBe all experienced double-digit growth. Above average summer temperatures across the country, as well as the launch of new products such as Aquafina FlavorSplash and Gatorade Lemonade earlier in the year, drove Gatorade and trademark Aquafina growth. Tropicana Pure Premium experienced a low-single-digit decline resulting from price increases taken in the first quarter. The decline in CSDs reflects low-single-digit declines in trademark Pepsi and trademark Mountain Dew, slightly offset by low-single-digit growth in Sierra Mist.

Across the brands, a low-single-digit decline in regular CSDs was partially offset by low-single-digit growth in diet CSDs. The additional week in 2005 had no significant impact on volume growth as bottler volume is reported based on a calendar month.

Net revenue also benefited from 5 percentage points of favorable effective net pricing, reflecting the continued migration from CSDs to non-carbonated beverages and price increases taken in the first quarter, primarily on concentrate and Tropicana Pure Premium, partially offset by increased trade spending in 2005. The additional week in 2005 contributed 1 percentage point to net revenue growth.

Operating profit increased nearly 7%, primarily reflecting net revenue growth. This increase was partially offset by higher raw material, energy and transportation costs, as well as increased advertising and marketing expenses. The additional week in 2005 contributed 1 percentage point to operating profit growth and was fully offset by a 1-percentage-point decline related to charges taken in 2005 to reduce costs in our operations, principally through headcount reductions.

Aquafina, Gatorade, Tropicana juice drinks and Propel all experienced double-digit volume growth in both 2006 and 2005.

Smart Spot eligible products represented almost 70% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio grew in the low-single-digit range.

PepsiCo International

	2006	2005	2004	% Change	
				2006	2005
Net revenue	\$12,959	\$11,376	\$9,862	14	15
Operating profit	\$1,948	\$1,607	\$1,323	21	21

2006

International snacks volume grew 9%, reflecting double-digit growth in Russia, Turkey, Egypt and India, and single-digit growth at Sabritas in Mexico. Overall, the Europe, Middle East & Africa region grew 17%, the Latin America region grew 2.5% and the Asia Pacific region grew 12%. Acquisitions of two businesses in Europe in 2006 increased the Europe, Middle East & Africa region volume growth by nearly 6 percentage points. The acquisition of a business in Australia increased the Asia Pacific region volume growth by 1 percentage point. In aggregate, acquisitions contributed 2 percentage points to the reported total PepsiCo International snack volume growth rate. The absence of the prior year's additional week reduced the growth rate by 1 percentage point.

Beverage volume grew 9%, reflecting broad-based increases led by double-digit growth in the Middle East, China, Argentina, Russia and Venezuela. The

International snack volume and beverage volume each grew 9% in 2006.

Europe, Middle East & Africa region grew 11%, the Asia Pacific region grew 9% and the Latin America region grew 7%. Acquisitions contributed 1 percentage point to the Europe, Middle East & Africa region volume growth rate and contributed slightly to the reported total PepsiCo International beverage volume growth rate. CSDs grew at a high-single-digit rate while non-carbonated beverages grew at a double-digit rate.

Net revenue grew 14%, primarily as a result of the broad-based volume growth and favorable effective net pricing. The net impact of acquisitions and divestitures contributed nearly 3 percentage points to net revenue growth.

Foreign currency contributed 1 percentage point of growth. The absence of the prior year's additional week reduced net revenue growth by 1 percentage point.

Operating profit grew 21%, driven primarily by the net revenue growth, partially offset by increased raw material and energy costs. The net impact of acquisitions and divestitures had no impact on the growth rate. Foreign currency contributed 1 percentage point of growth. The absence of the prior year's additional week, which reduced the operating profit growth rate by 1 percentage point, was fully offset by the impact of charges taken in 2005 to reduce costs in our operations and rationalize capacity.

2005

International snacks volume grew 7%, reflecting growth of 11% in the Europe, Middle East & Africa region, 5% in the Latin America region and 6% in the Asia Pacific region. Acquisition and divestiture activity, principally the divestiture in 2004 of our interest in a South Korea joint venture, reduced Asia Pacific region volume by 11 percentage points. The acquisition of a business in Romania late in 2004 increased the Europe, Middle East & Africa region volume growth by 3 percentage points. Cumulatively, our divestiture and acquisition activities did not impact the reported total PepsiCo International snack volume growth rate. The overall gains reflected mid-single-digit growth at Sabritas in Mexico, double-digit growth in India, Turkey, Russia, Australia and China, partially offset by a low-single-digit decline at Walkers in the United Kingdom. The decline at Walkers is due principally to marketplace pressures. The additional week contributed 1 percentage point to international snack volume growth.

Beverage volume grew 11%, reflecting growth of 14% in the Europe, Middle East & Africa region, 11% in the Asia

Pacific region and 6% in the Latin America region. Acquisitions had no significant impact on the reported total PepsiCo International beverage volume growth rate. Broad-based increases were led by double-digit growth in the Middle East, China, Argentina, Venezuela and Russia. Carbonated soft drinks and non-carbonated beverages both grew at a double-digit rate. The additional week had no impact on beverage volume growth as volume is reported based on a calendar month.

Net revenue grew 15%, primarily as a result of the broad-based volume growth and favorable effective net pricing. Foreign currency contributed almost 3 percentage points of growth reflecting the favorable Mexican peso and Brazilian real, partially offset by the unfavorable British pound. Acquisitions and divestitures contributed almost 2 percentage points of growth. The additional week contributed 1 percentage point to revenue growth. Cumulatively, the impact of foreign currency, acquisitions and divestitures, and the additional week on net revenue was 5 percentage points.

Operating profit grew 21% driven largely by the broad-based volume growth and favorable effective net pricing, partially offset by increased energy and raw material costs. Foreign currency contributed 4 percentage points of growth based on the favorable Mexican peso and Brazilian real. The net favorable impact from acquisition and divestiture activity, primarily the acquisition of General Mills' minority interest in Snack Ventures Europe in the first quarter of 2005, contributed 2 percentage points of growth. The additional week contributed 1 percentage point to operating profit growth which was fully offset by a 1-percentage-point decline in operating profit growth related to fourth quarter charges to reduce costs in our operations and rationalize capacity.

Quaker Foods North America

	2006	2005	2004	% Change	
				2006	2005
Net revenue	\$1,769	\$1,718	\$1,526	3	13
Operating profit	\$554	\$537	\$475	3	13

2006

Net revenue grew 3% and volume increased 1%. The volume increase reflects mid-single-digit growth in Oatmeal, high-single-digit growth in Life cereal and low-single-digit growth in Cap'n Crunch cereal. These increases were partially offset by a low-single-digit decline in Aunt Jemima syrup and mix and a mid-single-digit decline in Rice-A-Roni. Net revenue growth was also driven by favorable effective net pricing, which contributed almost 2 percentage points to net revenue growth, and favorable Canadian foreign exchange rates which contributed almost 1 percentage point. The absence of the prior year's additional week reduced both net revenue and volume growth by approximately 2 percentage points.

Operating profit increased 3% primarily reflecting the net revenue growth. Increased cost of sales, primarily driven by higher raw material and energy costs, were largely offset by lower advertising and marketing expenses. The absence of the prior year's additional week reduced operating profit growth by approximately 2 points.

Smart Spot eligible products represented approximately 55% of net revenue and had mid-single-digit net revenue growth. The balance of the portfolio experienced a low-single-digit decline. The absence of the prior year's additional week negatively impacted these results.

2005

Net revenue increased 13% and volume increased 9%. The volume increase reflects double-digit growth in Oatmeal, Aunt Jemima syrup and mix, Rice-A-Roni and Pasta Roni, as well as high-single-digit growth in Cap'n Crunch cereal and mid-single-digit growth in Life cereal. Higher effective net pricing contributed nearly 3 percentage points of growth reflecting favorable product mix, the settlement of prior year trade spending accruals and price increases on ready-to-eat cereals taken in the third quarter of 2004. Favorable Canadian exchange rates contributed nearly 1 percentage point to net revenue growth. The additional week in 2005 contributed

approximately 2 percentage points to both net revenue and volume growth.

Operating profit increased 13% reflecting the net revenue growth. This growth was partially offset by higher advertising and marketing costs behind programs for core brands and innovation, as well as an unfavorable cost of sales comparison primarily due to

In 2006 and 2005, Smart Spot eligible products represented over half of QFNA's total net revenue.

higher energy and raw material costs in the latter part of 2005. The additional week in 2005 contributed approximately 2 percentage points to operating profit growth.

Smart Spot eligible products represented approximately half of net revenue and had double-digit revenue growth. The balance of the portfolio also experienced double-digit revenue growth.

Our Liquidity and Capital Resources

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world. Our principal source of liquidity is our operating cash flow. This cash-generating capability is one of our fundamental strengths and provides us with substantial financial flexibility in meeting operating, investing and financing needs. In addition, we have revolving credit facilities that are further discussed in Note 9. Our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the third quarter due to seasonal and holiday-related sales patterns, and generally lowest in the first quarter.

Operating Activities

In 2006, our operations provided \$6.1 billion of cash compared to \$5.9 billion in the prior year. The increase primarily reflects our solid business results. Our operating cash flow in 2006 also reflects increased net tax payments over the prior year of \$897 million, which included \$420 million related to our repatriation of international cash in 2005 in connection with the AJCA, substantially offset by reductions in pension plan contributions over the prior year of \$744 million.

Investing Activities

In 2006, we used \$194 million for our investing activities. Capital spending of \$2.1 billion and acquisitions of \$522 million were mostly offset by net sales of short-term investments of \$2.0 billion and proceeds from our sale of PBG stock of \$318 million. The increase in capital spending over the prior year primarily reflects increased investments at PI and in our North American Gatorade business, as well as increased support behind our ongoing BPT initiative. In 2005, we used \$3.5 billion, primarily reflecting capital spending of \$1.7 billion, acquisitions of \$1.1 billion, primarily the \$750 million acquisition of General Mills' minority interest in Snack Ventures Europe, and net purchases of

short-term investments of \$1.0 billion. These amounts were partially offset by the proceeds from our sale of PBG stock of \$214 million.

In the first quarter of 2007, we completed our acquisition of Naked Juice Company which was funded with existing domestic cash. This acquisition will be included in the first quarter of 2007 as an investing activity in our Condensed Consolidated Statement of Cash Flows.

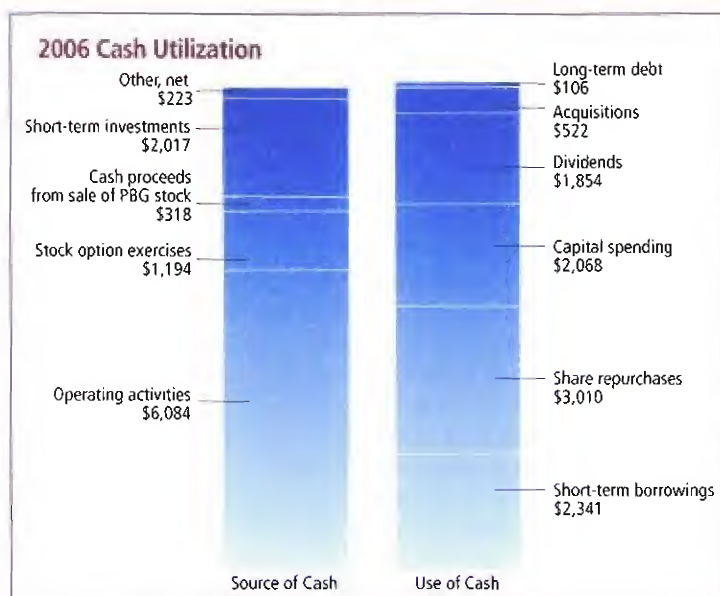
We anticipate net capital spending of approximately \$2.6 billion in 2007, which is expected to be within our net capital spending target of approximately 5% to 7% of net revenue in each of the next few years. Planned capital spending in 2007 includes increased investments at PI, particularly in the developing and emerging markets, and additional investments in manufacturing capacity to support our North American Gatorade business as well as other non-carbonated beverage businesses. New capital projects are evaluated on a case-by-case basis and must meet certain payback and internal rate of return targets.

Financing Activities

In 2006, we used \$6.0 billion for our financing activities, primarily reflecting the return of operating cash flow to our

shareholders through common share repurchases of \$3.0 billion and dividend payments of \$1.9 billion. Net repayments of short-term borrowings of \$2.3 billion were partially offset by stock option proceeds of \$1.2 billion. In 2005, we used \$1.9 billion for our financing activities, primarily reflecting share repurchases of \$3.0 billion and dividend payments of \$1.6 billion, partially offset by net proceeds from short-term borrowings of \$1.8 billion and stock option proceeds of \$1.1 billion.

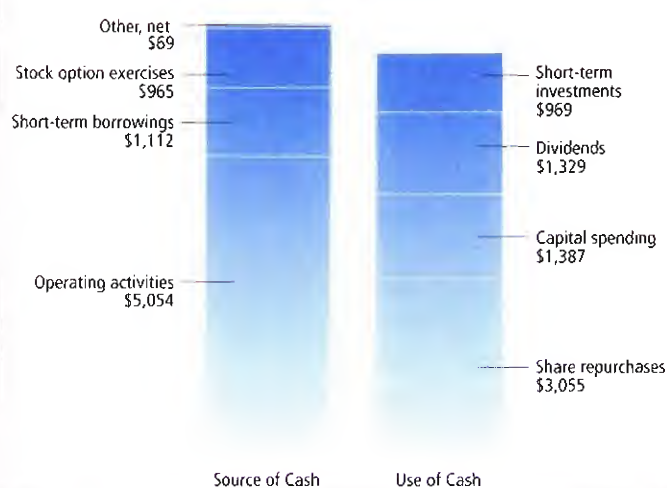
On May 3, 2006, our Board of Directors authorized and publicly announced our new \$8.5 billion repurchase program, which expires on June 30, 2009. Since inception of the new program, we have repurchased \$1.1 billion of shares, leaving \$7.4 billion of remaining authorization. We have historically repurchased significantly more shares each year than we have issued under our stock-based compensation plans, with average net annual repurchases of 1.4% of outstanding shares for the last five years. We target an annual dividend payout of approximately 45% of prior year's net income from continuing operations. Annually, we review our capital structure with our Board, including our dividend policy and share repurchase activity.



2005 Cash Utilization



2004 Cash Utilization



	2006	2005	2004
Net cash provided by operating activities	\$ 6,084	\$ 5,852	\$ 5,054
Capital spending	(2,068)	(1,736)	(1,387)
Sales of property, plant and equipment	49	88	38
Management operating cash flow	\$ 4,065	\$ 4,204	\$ 3,705

Management Operating Cash Flow

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. The table above reconciles the net cash provided by operating activities as reflected in our Consolidated Statement of Cash Flows to our management operating cash flow. Management operating cash flow was used primarily to repurchase shares and pay dividends. We expect to continue to return approximately all of our management operating cash flow to our shareholders

through dividends and share repurchases. However, see "Our Business Risks" for certain factors that may impact our operating cash flows.

Credit Ratings

Our debt ratings of Aa3 from Moody's and A+ from Standard & Poor's contribute to our ability to access global capital markets. We have maintained strong investment grade ratings for over a decade. Each rating is considered strong investment grade and is in the first quartile of their respective ranking systems. These ratings also reflect the impact of our anchor bottlers' cash flows and debt.

Credit Facilities and Long-Term Contractual Commitments

See Note 9 for a description of our credit facilities and long-term contractual commitments.

Off-Balance-Sheet Arrangements

It is not our business practice to enter into off-balance-sheet arrangements, other than in the normal course of business, nor is it our policy to issue guarantees to our bottlers, non-controlled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. At year-end 2006, we believe it is remote that these guarantees would require any cash payment. We do not enter into off-balance-sheet transactions specifically structured to provide income or tax benefits or to avoid recognizing or disclosing assets or liabilities. See Note 9 for a description of our off-balance-sheet arrangements.

Consolidated Statement of Income

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2006, December 31, 2005 and December 25, 2004

(in millions except per share amounts)

	2006	2005	2004
Net Revenue	\$35,137	\$32,562	\$29,261
Cost of sales.....	15,762	14,176	12,674
Selling, general and administrative expenses.....	12,774	12,314	11,031
Amortization of intangible assets.....	162	150	147
Restructuring and impairment charges.....	—	—	150
Operating Profit	6,439	5,922	5,259
Bottling equity income.....	616	557	380
Interest expense.....	(239)	(256)	(167)
Interest income.....	173	159	74
Income from Continuing Operations before Income Taxes	6,989	6,382	5,546
Provision for Income Taxes	1,347	2,304	1,372
Income from Continuing Operations	5,642	4,078	4,174
Tax Benefit from Discontinued Operations	—	—	38
Net Income	\$ 5,642	\$ 4,078	\$ 4,212
Net Income per Common Share — Basic			
Continuing operations.....	\$3.42	\$2.43	\$2.45
Discontinued operations.....	—	—	0.02
Total	\$3.42	\$2.43	\$2.47
Net Income per Common Share — Diluted			
Continuing operations.....	\$3.34	\$2.39	\$2.41
Discontinued operations.....	—	—	0.02
Total	\$3.34	\$2.39	\$2.44*

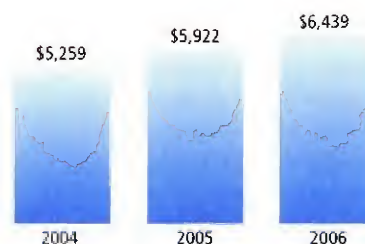
* Based on unrounded amounts.

See accompanying notes to consolidated financial statements.

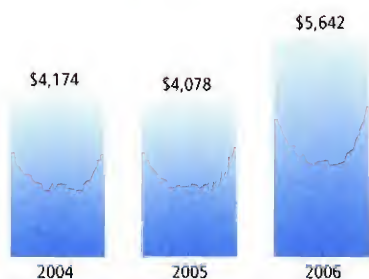
Net Revenue



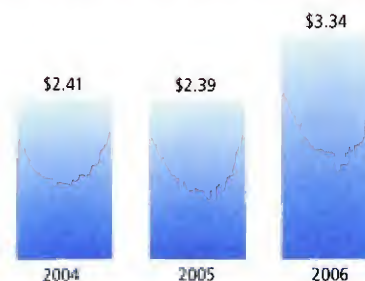
Operating Profit



Income from Continuing Operations



Net Income per Common Share — Continuing Operations



Consolidated Statement of Cash Flows

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2006, December 31, 2005 and December 25, 2004

(in millions)	2006	2005	2004
Operating Activities			
Net income	\$ 5,642	\$ 4,078	\$ 4,212
Depreciation and amortization	1,406	1,308	1,264
Stock-based compensation expense	270	311	368
Excess tax benefits from share-based payment arrangements	(134)	—	—
Restructuring and impairment charges	—	—	150
Cash payments for merger-related costs and restructuring charges	—	(22)	(92)
Tax benefit from discontinued operations	—	—	(38)
Pension and retiree medical plan contributions	(131)	(877)	(534)
Pension and retiree medical plan expenses	544	464	395
Bottling equity income, net of dividends	(479)	(411)	(297)
Deferred income taxes and other tax charges and credits	(510)	440	(203)
Other non-cash charges and credits, net	32	145	166
Change in accounts and notes receivable	(330)	(272)	(130)
Change in inventories	(186)	(132)	(100)
Change in prepaid expenses and other current assets	(37)	(56)	(31)
Change in accounts payable and other current liabilities	223	188	216
Change in income taxes payable	(295)	609	(268)
Other, net	69	79	(24)
Net Cash Provided by Operating Activities	6,084	5,852	5,054
Investing Activities			
Snack Ventures Europe (SVE) minority interest acquisition	—	(750)	—
Capital spending	(2,068)	(1,736)	(1,387)
Sales of property, plant and equipment	49	88	38
Investment in finance assets	(25)	—	—
Other acquisitions and investments in noncontrolled affiliates	(522)	(345)	(64)
Cash proceeds from sale of PBG stock	318	214	—
Divestitures	37	3	52
Short-term investments, by original maturity			
More than three months — purchases	(29)	(83)	(44)
More than three months — maturities	25	84	38
Three months or less, net	2,021	(992)	(963)
Net Cash Used for Investing Activities	(194)	(3,517)	(2,330)
Financing Activities			
Proceeds from issuances of long-term debt	51	25	504
Payments of long-term debt	(157)	(177)	(512)
Short-term borrowings, by original maturity			
More than three months — proceeds	185	332	153
More than three months — payments	(358)	(85)	(160)
Three months or less, net	(2,168)	1,601	1,119
Cash dividends paid	(1,854)	(1,642)	(1,329)
Share repurchases — common	(3,000)	(3,012)	(3,028)
Share repurchases — preferred	(10)	(19)	(27)
Proceeds from exercises of stock options	1,194	1,099	965
Excess tax benefits from share-based payment arrangements	134	—	—
Net Cash Used for Financing Activities	(5,983)	(1,878)	(2,315)
Effect of exchange rate changes on cash and cash equivalents	28	(21)	51
Net (Decrease)/Increase in Cash and Cash Equivalents	(65)	436	460
Cash and Cash Equivalents, Beginning of Year	1,716	1,280	820
Cash and Cash Equivalents, End of Year	\$ 1,651	\$ 1,716	\$ 1,280

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

PepsiCo, Inc. and Subsidiaries
December 30, 2006 and December 31, 2005

(in millions except per share amounts)

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,651	\$ 1,716
Short-term investments	1,171	3,166
Accounts and notes receivable, net	3,725	3,261
Inventories	1,926	1,693
Prepaid expenses and other current assets	657	618
Total Current Assets	9,130	10,454
Property, Plant and Equipment, net	9,687	8,681
Amortizable Intangible Assets, net	637	530
Goodwill	4,594	4,088
Other nonamortizable intangible assets	1,212	1,086
Nonamortizable Intangible Assets	5,806	5,174
Investments in Noncontrolled Affiliates	3,690	3,485
Other Assets	980	3,403
Total Assets	\$29,930	\$31,727
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term obligations	\$ 274	\$ 2,889
Accounts payable and other current liabilities	6,496	5,971
Income taxes payable	90	546
Total Current Liabilities	6,860	9,406
Long-Term Debt Obligations	2,550	2,313
Other Liabilities	4,624	4,323
Deferred Income Taxes	528	1,434
Total Liabilities	14,562	17,476
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(120)	(110)
Common Shareholders' Equity		
Common stock, par value 1 2/3¢ per share (issued 1,782 shares)	30	30
Capital in excess of par value	584	614
Retained earnings	24,837	21,116
Accumulated other comprehensive loss	(2,246)	(1,053)
	23,205	20,707
Less: repurchased common stock, at cost (144 and 126 shares, respectively)	(7,758)	(6,387)
Total Common Shareholders' Equity	15,447	14,320
Total Liabilities and Shareholders' Equity	\$29,930	\$31,727

See accompanying notes to consolidated financial statements.

Consolidated Statement of Common Shareholders' Equity

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2006, December 31, 2005 and December 25, 2004

(in millions)	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock	1,782	\$ 30	1,782	\$ 30	1,782	\$ 30
Capital in Excess of Par Value						
Balance, beginning of year		614		618		548
Stock-based compensation expense		270		311		368
Stock option exercises ^(a)		(300)		(315)		(298)
Balance, end of year		584		614		618
Retained Earnings						
Balance, beginning of year		21,116		18,730		15,961
Net income		5,642		4,078		4,212
Cash dividends declared — common		(1,912)		(1,684)		(1,438)
Cash dividends declared — preferred		(1)		(3)		(3)
Cash dividends declared — RSUs		(8)		(5)		(2)
Balance, end of year		24,837		21,116		18,730
Accumulated Other Comprehensive Loss						
Balance, beginning of year		(1,053)		(886)		(1,267)
Currency translation adjustment		465		(251)		401
Cash flow hedges, net of tax:						
Net derivative (losses)/gains		(18)		54		(16)
Reclassification of (gains)/losses to net income		(5)		(8)		9
Unamortized pension and retiree medical, net of tax		(1,782)		—		—
Minimum pension liability adjustment, net of tax		138		16		(19)
Unrealized gain on securities, net of tax		9		24		6
Other		—		(2)		—
Balance, end of year		(2,246)		(1,053)		(886)
Repurchased Common Stock						
Balance, beginning of year	(126)	(6,387)	(103)	(4,920)	(77)	(3,376)
Share repurchases	(49)	(3,000)	(54)	(2,995)	(58)	(2,994)
Stock option exercises	31	1,619	31	1,523	32	1,434
Other	—	10	—	5	—	16
Balance, end of year	(144)	(7,758)	(126)	(6,387)	(103)	(4,920)
Total Common Shareholders' Equity		\$15,447		\$14,320		\$13,572
		2006		2005		2004
Comprehensive Income						
Net income		\$5,642		\$4,078		\$4,212
Currency translation adjustment		465		(251)		401
Cash flow hedges, net of tax		(23)		46		(7)
Minimum pension liability adjustment, net of tax		5		16		(19)
Unrealized gain on securities, net of tax		9		24		6
Other		—		(2)		—
Total Comprehensive Income		\$6,098		\$3,911		\$4,593

(a) Includes total tax benefits of \$130 million in 2006, \$125 million in 2005 and \$183 million in 2004.
See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note I – Basis of Presentation and Our Divisions

Basis of Presentation

Our financial statements include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates based on our economic ownership interest. We do not control these other affiliates, as our ownership in these other affiliates is generally less than 50%. Our share of the net income of noncontrolled bottling affiliates is reported in our income statement as bottling equity income. Bottling equity income also includes any changes in our ownership interests of these affiliates. Bottling equity income includes \$186 million and \$126 million of pre-tax gains on our sales of PBG stock in 2006 and 2005, respectively. See Note 8 for additional information on our significant noncontrolled bottling affiliates. Intercompany balances and transactions are eliminated. In 2005, we had an additional week of results (53rd week). Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years.

In connection with our ongoing BPT initiative, we aligned certain accounting policies across our divisions in 2005. We conformed our methodology for calculating our bad debt reserves and modified our policy for recognizing revenue for products shipped to customers by third-party carriers. Additionally, we conformed our method of accounting for certain costs, primarily warehouse and freight. These changes reduced our net revenue by \$36 million and our operating profit by \$60 million in 2005.

Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported

amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Estimates are used in determining, among other items, sales incentives accruals, tax reserves, stock-based compensation, pension and retiree medical accruals, useful lives for intangible assets, and future cash flows associated with impairment testing for perpetual brands, goodwill and other long-lived assets. Actual results could differ from these estimates.

See "Our Divisions" below and for additional unaudited information on items affecting the comparability of our consolidated results, see "Items Affecting Comparability" in Management's Discussion and Analysis.

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to prior years' amounts to conform to the 2006 presentation.

Our Divisions

We manufacture or use contract manufacturers, market and sell a variety of salty, sweet and grain-based snacks, carbonated and non-carbonated beverages, and foods through our North American and international business divisions. Our North American divisions include the United States and Canada. The accounting policies for the divisions are the same as those described in Note 2, except for certain allocation methodologies for stock-based compensation expense and pension and retiree medical expenses, as described in the unaudited information in "Our Critical Accounting Policies." Additionally, beginning in the

fourth quarter of 2005, we began centrally managing commodity derivatives on behalf of our divisions. Certain of the commodity derivatives, primarily those related to the purchase of energy for use by our divisions, do not qualify for hedge accounting treatment. These derivatives hedge underlying commodity price risk and were not entered into for speculative purposes. Such derivatives are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions take delivery of the underlying commodity. Therefore, division results

reflect the contract purchase price of the energy or other commodities.

Division results are based on how our President and Chief Executive Officer assesses the performance of and reallocates resources to our divisions. Division results exclude certain Corporate-initiated restructuring and impairment charges. For additional unaudited information on our divisions, see "Our Operations" in Management's Discussion and Analysis.



PEPSICO

Frito-Lay
North America
(FLNA)

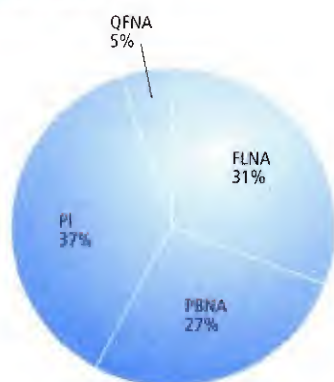
PepsiCo
Beverages
North America
(PBNA)

PepsiCo
International
(PI)

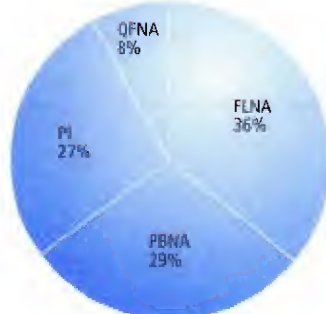
Quaker Foods
North America
(QFNA)

	Net Revenue			Operating Profit		
	2006	2005	2004	2006	2005	2004
FLNA	\$10,844	\$10,322	\$ 9,560	\$2,615	\$2,529	\$2,389
PBNA	9,565	9,146	8,313	2,055	2,037	1,911
PI	12,959	11,376	9,862	1,948	1,607	1,323
QFNA	1,769	1,718	1,526	554	537	475
Total division	35,137	32,562	29,261	7,172	6,710	6,098
Corporate	—	—	—	(733)	(788)	(689)
	35,137	32,562	29,261	6,439	5,922	5,409
Restructuring and impairment charges	—	—	—	—	—	(150)
Total	\$35,137	\$32,562	\$29,261	\$6,439	\$5,922	\$5,259

Net Revenue



Division Operating Profit



Corporate

Corporate includes costs of our corporate headquarters, centrally-managed initiatives, such as our BPT initiative in North America, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, and certain commodity derivative gains and losses, as well as profit-in-inventory elimination adjustments for our non-controlled bottling affiliates and certain other items.

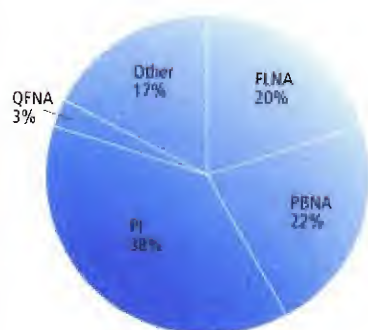
Restructuring and Impairment Charges — See Note 3.

Other Division Information

	Total Assets			Capital Spending		
	2006	2005	2004	2006	2005	2004
FLNA	\$ 5,969	\$ 5,948	\$ 5,476	\$ 499	\$ 512	\$ 469
PBNA	6,567	6,316	6,048	492	320	265
PI	11,274	9,983	8,921	835	667	537
QFNA	1,003	989	978	31	31	33
Total division	24,813	23,236	21,423	1,857	1,530	1,304
Corporate ^(a)	1,739	5,331	3,569	211	206	83
Investments in bottling affiliates	3,378	3,160	2,995	—	—	—
	\$29,930	\$31,727	\$27,987	\$2,068	\$1,736	\$1,387

(a) Corporate assets consist principally of cash and cash equivalents, short-term investments, and property, plant and equipment.

Total Assets



Capital Spending



Net Revenue



Amortization of Intangible Assets

Depreciation and Other Amortization

	2006	2005	2004	2006	2005	2004
FLNA	\$ 9	\$ 3	\$ 3	\$ 432	\$ 419	\$ 420
PBNA	77	76	75	282	264	258
PI	76	71	68	478	420	382
QFNA	—	—	1	33	34	36
Total division	162	150	147	1,225	1,137	1,096
Corporate	—	—	—	19	21	21
	\$162	\$150	\$147	\$1,244	\$1,158	\$1,117

Net Revenue^(a)Long-Lived Assets^(b)

	2006	2005	2004	2006	2005	2004
U.S.	\$20,788	\$19,937	\$18,329	\$11,515	\$10,723	\$10,212
Mexico	3,228	3,095	2,724	996	902	878
United Kingdom	1,839	1,821	1,692	1,995	1,715	1,896
Canada	1,702	1,509	1,309	589	582	548
All other countries	7,580	6,200	5,207	4,725	3,948	3,339
	\$35,137	\$32,562	\$29,261	\$19,820	\$17,870	\$16,873

(a) Represents net revenue from businesses operating in these countries.

(b) Long-lived assets represent property, plant and equipment, nonamortizable intangible assets, amortizable intangible assets, and investments in noncontrolled affiliates. These assets are reported in the country where they are primarily used.

Long-Lived Assets



Note 2 – Our Significant Accounting Policies

Revenue Recognition

We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that our consumers receive the product quality and freshness that they expect. Similarly, our policy for ware-

house-distributed products is to replace damaged and out-of-date products. Based on our historical experience with this practice, we have reserved for anticipated damaged and out-of-date products. For additional unaudited information on our revenue recognition and related policies, including our policy on bad debts, see "Our Critical Accounting Policies" in Management's Discussion and Analysis. We are exposed

to concentration of credit risk by our customers, Wal-Mart and PBG. In 2006, Wal-Mart represented approximately 9% of our total net revenue, including concentrate sales to our bottlers which are used in finished goods sold by them to Wal-Mart; and PBG represented approximately 10%. We have not experienced credit issues with these customers.

Sales Incentives and Other Marketplace Spending

We offer sales incentives and discounts through various programs to our customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled \$10.1 billion in 2006, \$8.9 billion in 2005 and \$7.8 billion in 2004. While most of these incentive arrangements have terms of no more than one year, certain arrangements, such as fountain pouring rights, extend beyond one year. Costs incurred to obtain these arrangements are recognized over no longer than the contract period and the remaining balances of \$297 million at December 30, 2006 and \$321 million at December 31, 2005 are included in current assets and other assets on our balance sheet. For additional unaudited information on our sales incentives, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Other marketplace spending includes the costs of advertising and other marketing activities and is reported as selling, general and administrative expenses. Advertising expenses were \$1.7 billion in 2006, \$1.8 billion in 2005 and \$1.7 billion in 2004. Deferred advertising costs are not expensed until the year first used and consist of:

- media and personal service prepayments,
- promotional materials in inventory, and
- production costs of future media advertising.

Deferred advertising costs of \$171 million and \$202 million at year-end 2006 and 2005, respectively, are classified as prepaid expenses on our balance sheet.

Distribution Costs

Distribution costs, including the costs of shipping and handling activities, are reported as selling, general and administrative expenses. Shipping and handling expenses were \$4.6 billion in 2006, \$4.1 billion in 2005 and \$3.9 billion in 2004.

Cash Equivalents

Cash equivalents are investments with original maturities of three months or less which we do not intend to rollover beyond three months.

Software Costs

We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line basis when placed into service over the estimated useful lives of the software, which approximate five to seven years. Net capitalized software and development costs were \$537 million at December 30, 2006 and \$327 million at December 31, 2005.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For additional information on our commitments, see Note 9.

Research and Development

We engage in a variety of research and development activities. These activities principally involve the development of new products, improvement in the quality of existing products, improvement and modernization of production processes, and the development and implementation of new technologies to enhance the quality and value of both current and proposed product lines. Research and development costs were \$344 million in 2006 and \$340 million in 2005 and are reported as selling, general and administrative expenses.

Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

- Property, Plant and Equipment and Intangible Assets — Note 4 and, for additional unaudited information on brands and goodwill, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.
- Income Taxes — Note 5 and, for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

- Stock-Based Compensation Expense — Note 6 and, for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.
- Pension, Retiree Medical and Savings Plans — Note 7 and, for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.
- Risk Management — Note 10 and, for additional unaudited information, see "Our Business Risks" in Management's Discussion and Analysis.

Recent Accounting Pronouncements

As further discussed in Note 6, we adopted SFAS 123R on January 1, 2006.

As further discussed in Note 7, we adopted SFAS 158 on December 30, 2006.

In September 2006, the SEC issued SAB 108 to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that we quantify misstatements based on their impact on each of our financial statements and related disclosures. On December 30, 2006, we adopted SAB 108. Our adoption of SAB 108 did not impact our financial statements.

In July 2006, the FASB issued FIN 48 which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of our 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We do not expect our adoption of FIN 48 to materially impact our financial statements.

In September 2006, the FASB issued SFAS 157 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact of adopting SFAS 157 on our financial statements.

Note 3 – Restructuring and Impairment Charges

2006 Restructuring and Impairment Charges

In 2006, we incurred a charge of \$67 million (\$43 million after-tax or \$0.03 per share) in conjunction with consolidating the manufacturing network at FLNA by closing two plants in the U.S., and rationalizing other assets, to increase manufacturing productivity and supply chain efficiencies. The charge was comprised of \$43 million of asset impairments, \$14 million of severance and other employee costs and \$10 million of other costs. Employee-related costs primarily reflect the termination costs for approximately 380 employees. We expect all of the cash payments related to this charge to be paid by the end of 2007.

2005 Restructuring Charges

In 2005, we incurred a charge of \$83 million (\$55 million after-tax or \$0.03 per share) in conjunction with actions taken to reduce costs in our operations, principally through headcount reductions. Of this charge, \$34 million related to FLNA, \$21 million to PBNA, \$16 million to PI and \$12 million to Corporate. Most of this charge related to the termination of approximately 700 employees. As of December 30, 2006, all terminations had occurred and substantially no accrual remains.

2004 Restructuring and Impairment Charges

In 2004, we incurred a charge of \$150 million (\$96 million after-tax or \$0.06 per

share) in conjunction with the consolidation of FLNA's manufacturing network as part of its ongoing productivity program. Of this charge, \$93 million related to asset impairments, primarily reflecting the closure of four U.S. plants. Production from these plants was redeployed to other FLNA facilities in the U.S. The remaining \$57 million included employee-related costs of \$29 million, contract termination costs of \$8 million and other exit costs of \$20 million. Employee-related costs primarily reflect the termination costs for approximately 700 employees. As of December 30, 2006, all terminations had occurred and substantially no accrual remains.

Note 4 – Property, Plant and Equipment and Intangible Assets

	Average Useful Life	2006	2005	2004
Property, plant and equipment, net				
Land and improvements	10 – 30 yrs.	\$ 756	\$ 685	
Buildings and improvements	20 – 44	4,095	3,736	
Machinery and equipment, including fleet and software	5 – 15	12,768	11,658	
Construction in progress		1,439	1,066	
		19,058	17,145	
Accumulated depreciation		(9,371)	(8,464)	
		\$ 9,687	\$ 8,681	
Depreciation expense		\$1,182	\$1,103	\$1,062
Amortizable intangible assets, net				
Brands	5 – 40	\$1,288	\$1,054	
Other identifiable intangibles	3 – 15	290	257	
		1,578	1,311	
Accumulated amortization		(941)	(781)	
		\$ 637	\$ 530	
Amortization expense		\$162	\$150	\$147

Depreciation and amortization are recognized on a straight-line basis over an asset's estimated useful life. Land is not depreciated and construction in progress is not depreciated until ready for service. Amortization of intangible assets for each of the next five years, based on average 2006 foreign exchange rates, is expected to be \$49 million in 2007, \$49 million in 2008, \$47 million in 2009, \$46 million in 2010 and \$44 million in 2011.

Depreciable and amortizable assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows.

Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need for revision. For additional unaudited information on our amortizable brand policies, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Nonamortizable Intangible Assets

Perpetual brands and goodwill are assessed for impairment at least annually. If the carrying amount of a perpetual brand exceeds its fair value, as determined by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. Goodwill is evaluated using a two-step impairment test at the reporting unit level. A reporting unit can be a division or business within a division. The first step compares the book value of a

reporting unit, including goodwill, with its fair value, as determined by its discounted cash flows. If the book value of a reporting unit exceeds its fair value, we complete the second step to determine the amount of goodwill impairment loss that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of that goodwill. No impairment charges resulted from the required impairment evaluations. The change in the book value of nonamortizable intangible assets is as follows:

	Balance, Beginning 2005	Acquisitions	Translation and Other	Balance, End of 2005	Acquisitions	Translation and Other	Balance, End of 2006
Frito-Lay North America							
Goodwill	\$ 138	\$ —	\$ 7	\$ 145	\$139	\$ —	\$ 284
PepsiCo Beverages North America							
Goodwill	2,161	—	3	2,164	39	—	2,203
Brands	59	—	—	59	—	—	59
	2,220	—	3	2,223	39	—	2,262
PepsiCo International							
Goodwill	1,435	278	(109)	1,604	183	145	1,932
Brands	869	263	(106)	1,026	—	127	1,153
	2,304	541	(215)	2,630	183	272	3,085
Quaker Foods North America							
Goodwill	175	—	—	175	—	—	175
Corporate							
Pension intangible	5	—	(4)	1	—	(1)	—
Total goodwill	3,909	278	(99)	4,088	361	145	4,594
Total brands	928	263	(106)	1,085	—	127	1,212
Total pension intangible	5	—	(4)	1	—	(1)	—
	\$4,842	\$541	\$ (209)	\$5,174	\$361	\$271	\$5,806

Note 5 – Income Taxes

	2006	2005	2004
Income before income taxes — continuing operations			
U.S.	\$ 3,844	\$ 3,175	\$ 2,946
Foreign	3,145	3,207	2,600
	\$ 6,989	\$ 6,382	\$ 5,546
Provision for income taxes — continuing operations			
Current: U.S. Federal	\$ 776	\$ 1,638	\$ 1,030
Foreign	569	426	256
State	56	118	69
	1,401	2,182	1,355
Deferred: U.S. Federal	(31)	137	11
Foreign	(16)	(26)	5
State	(7)	11	1
	(54)	122	17
	\$ 1,347	\$ 2,304	\$ 1,372
Tax rate reconciliation — continuing operations			
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of U.S. Federal tax benefit	0.5	1.4	0.8
Taxes on AJCA repatriation	—	7.0	—
Lower taxes on foreign results	(6.5)	(6.5)	(5.4)
Settlement of prior years' audit	—	—	(4.8)
2006 Tax Adjustments	(8.6)	—	—
Other, net	(1.1)	(0.8)	(0.9)
Annual tax rate	19.3%	36.1%	24.7%
Deferred tax liabilities			
Investments in noncontrolled affiliates	\$ 1,103	\$ 993	
Property, plant and equipment	784	772	
Pension benefits	—	863	
Intangible assets other than nondeductible goodwill	169	135	
Zero coupon notes	27	35	
Other	221	169	
Gross deferred tax liabilities	2,304	2,967	
Deferred tax assets			
Net carryforwards	667	608	
Stock-based compensation	443	426	
Retiree medical benefits	541	400	
Other employee-related benefits	342	342	
Pension benefits	38	—	
Other	592	520	
Gross deferred tax assets	2,623	2,296	
Valuation allowances	(624)	(532)	
Deferred tax assets, net	1,999	1,764	
Net deferred tax liabilities	\$ 305	\$ 1,203	
Deferred taxes included within:			
Assets:			
Prepaid expenses and other current assets	\$ 223	\$ 231	
Liabilities:			
Deferred income taxes	\$ 528	\$ 1,434	
Analysis of valuation allowances			
Balance, beginning of year	\$ 532	\$ 564	\$ 438
Provision/(benefit)	71	(28)	118
Other additions/(deductions)	21	(4)	8
Balance, end of year	\$ 624	\$ 532	\$ 564

For additional unaudited information on our income tax policies, including our reserves for income taxes, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Carryforwards, Credits and Allowances

Operating loss carryforwards totaling \$6.1 billion at year-end 2006 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: \$0.2 billion in 2007, \$5.0 billion between 2008 and 2026 and \$0.9 billion may be carried forward indefinitely. In addition, certain tax credits generated in prior periods of approximately \$33.9 million are available to reduce certain foreign tax liabilities through 2011. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit.

Undistributed International Earnings

The AJCA created a one-time incentive for U.S. corporations to repatriate undistributed international earnings by providing an 85% dividends received deduction. In 2005, we repatriated approximately \$7.5 billion in earnings previously considered indefinitely rein-

vested outside the U.S. and recorded income tax expense of \$460 million related to this repatriation. Other than the earnings repatriated, we intend to continue to reinvest earnings outside the U.S. for the foreseeable future and, therefore, have not recognized any U.S. tax expense on these earnings. At December 30, 2006, we had approximately \$10.8 billion of undistributed international earnings.

Reserves

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. In 2006, we recognized non-cash tax benefits of \$602 million, substantially all of which related to the IRS's examination of our consolidated income tax returns for the years 1998 through 2002. The IRS issued a Revenue Agent's Report (RAR), and we are in agreement with their conclusion, except for one matter which we continue to dispute. The agreed adjustments relate to transfer pricing and various other transactions, including certain acquisitions, the public offering of PBG, as well as the restructuring of our international snack foods operations during that audit period. During 2004, we recognized \$266 million of tax benefits related to the

favorable resolution of certain previously open tax issues. In addition, in 2004, we recognized a tax benefit of \$38 million upon agreement with the IRS on a previously open issue related to our discontinued restaurant operations.

The IRS has initiated their audits of our tax returns for the years 2003 through 2005. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution. Our tax reserves, covering all federal, state and foreign jurisdictions, are presented on our balance sheet within other liabilities (see Note 14), except for any amounts relating to items we expect to pay in the coming year which are included in current income taxes payable. For further unaudited information on the impact of the resolution of open tax issues, see "Other Consolidated Results."

As further discussed in Note 2, we will adopt FIN 48 as of the beginning of our 2007 fiscal year.

Note 6 – Stock-Based Compensation

Our stock-based compensation program is a broad-based program designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. A majority of our employees participate in our stock-based compensation programs. In addition, members of our Board of Directors participate in our stock-based compensation program in connection with their service on our Board. Stock options and RSUs are granted to employees under the shareholder-approved 2003 Long-Term Incentive Plan (LTIP), our only active stock-based plan. Stock-based compensation

expense was \$270 million in 2006, \$311 million in 2005 and \$368 million in 2004. Related income tax benefits recognized in earnings were \$80 million in 2006, \$87 million in 2005 and \$103 million in 2004. Stock-based compensation cost capitalized in connection with our BPT initiative was \$3 million in 2006, \$4 million in 2005 and none in 2004. At year-end 2006, 36 million shares were available for future stock-based compensation grants. For additional unaudited information on our stock-based compensation program, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Method of Accounting and Our Assumptions

We account for our employee stock options, which include grants under our executive program and broad-based SharePower program, under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. All stock option grants have an exercise price equal to the fair market value of our common stock on the date of grant and generally have a 10-year term. The fair value of stock option grants is amortized to expense over the vesting period, generally three years.

Executives who are awarded long-term incentives based on their performance are offered the choice of stock options or RSUs. Executives who elect RSUs receive one RSU for every four stock options that would have otherwise been granted. Senior officers do not have a choice and are granted 50% stock options and 50% RSUs. RSU expense is based on the fair value of PepsiCo stock on the date of grant and is amortized over the vesting period, generally three years. Each RSU is

settled in a share of our stock after the vesting period. Vesting of RSU awards for senior officers is contingent upon the achievement of pre-established performance targets. There have been no reductions to the exercise price of previously issued awards, and any repricing of awards would require approval of our shareholders.

On January 1, 2006, we adopted SFAS 123R under the modified prospective method. Since we had previously

accounted for our stock-based compensation plans under the fair value provisions of SFAS 123, our adoption did not significantly impact our financial position or our results of operations. Under SFAS 123R, actual tax benefits recognized in excess of tax benefits previously established upon grant are reported as a financing cash inflow. Prior to adoption, such excess tax benefits were reported as an operating cash inflow.

Our weighted-average Black-Scholes fair value assumptions are as follows:

	2006	2005	2004
Expected life	6 yrs.	6 yrs.	6 yrs.
Risk free interest rate	4.5%	3.8%	3.3%
Expected volatility	18%	23%	26%
Expected dividend yield	1.9%	1.8%	1.8%

A summary of our stock-based compensation activity for the year ended December 30, 2006 is presented below:

Our Stock Option Activity	Options (a)	Average Price (b)	Average Life (years) (c)	Aggregate Intrinsic Value (d)
Outstanding at January 1, 2006	150,149	\$42.03		
Granted	12,519	57.72		
Exercised	(31,056)	38.61		
Forfeited/expired	(3,863)	49.06		
Outstanding at December 30, 2006	127,749	\$44.24	5.46	\$2,339,562
Exercisable at December 30, 2006	91,381	\$41.02	4.42	\$1,967,843

(a) Options are in thousands and include options previously granted under Quaker plans. No additional options or shares may be granted under the Quaker plans.

(b) Weighted-average exercise price.

(c) Weighted-average contractual life remaining.

(d) In thousands.

Our RSU Activity	RSUs (a)	Average Intrinsic Value (b)	Average Life (years) (c)	Aggregate Intrinsic Value (d)
Outstanding at January 1, 2006	5,669	\$50.70		
Granted	2,992	58.22		
Converted	(183)	50.00		
Forfeited/expired	(593)	53.17		
Outstanding at December 30, 2006	7,885	\$53.38	1.38	\$493,201

(a) RSUs are in thousands.

(b) Weighted-average intrinsic value at grant date.

(c) Weighted-average contractual life remaining.

(d) In thousands.

Other Stock-Based Compensation Data	2006	2005	2004
Stock Options			
Weighted-average fair value of options granted	\$12.81	\$13.45	\$12.04
Total intrinsic value of options exercised ^(a)	\$686,242	\$632,603	\$667,001
RSUs			
Total number of RSUs granted ^(a)	2,992	3,097	3,077
Weighted-average intrinsic value of RSUs granted	\$58.22	\$53.83	\$47.28
Total intrinsic value of RSUs converted ^(a)	\$10,934	\$4,974	\$914

(a) In thousands.

At December 30, 2006, there was \$301 million of total unrecognized compensation cost related to nonvested share-based compensation grants. This unrecognized compensation is expected to be recognized over a weighted-average period of 1.5 years.

Note 7 – Pension, Retiree Medical and Savings Plans

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts, which vary based upon years of service, with retirees contributing the remainder of the costs. We use a September 30 measurement date and all plan assets and liabilities are generally reported as of that date.

Other gains and losses resulting from actual experience differing from our

assumptions and from changes in our assumptions are also determined at each measurement date. If this net accumulated gain or loss exceeds 10% of the greater of plan assets or liabilities, a portion of the net gain or loss is included in expense for the following year. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in earnings on a straight-line basis over the average remaining service period of those expected to benefit, which is approximately 11 years for pension expense and approximately 13 years for retiree medical.

On December 30, 2006, we adopted SFAS 158 which requires that we recog-

nize the overfunded or underfunded status of our Plans as an asset or liability on our December 30, 2006 balance sheet. Subsequent changes in the funded status will be recognized through comprehensive income in the year in which they occur. SFAS 158 also requires that, beginning in 2008, our assumptions used to measure our annual pension and retiree medical expenses be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. In accordance with SFAS 158, prior year amounts have not been adjusted.

The following illustrates the incremental effect of applying SFAS 158 on individual line items on our balance sheet as of December 30, 2006:

	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Other nonamortizable intangible assets	\$1,229	\$(17)	\$1,212
Other assets	\$2,979	\$(1,999)	\$980
Total assets	\$31,946	\$(2,016)	\$29,930
Accounts payable and other current liabilities	\$6,475	\$21	\$6,496
Other liabilities	\$4,127	\$497	\$4,624
Deferred income taxes	\$1,419	\$(891)	\$528
Total liabilities	\$14,935	\$(373)	\$14,562
Accumulated other comprehensive loss	\$603	\$1,643	\$2,246
Total common shareholders' equity	\$17,090	\$(1,643)	\$15,447

	Pension				Retiree Medical	
	2006	2005	2006	2005	2006	2005
	U.S.		International			
Change in projected benefit liability						
Liability at beginning of year	\$5,771	\$4,968	\$1,263	\$ 952	\$1,312	\$1,319
Service cost	245	213	52	32	46	40
Interest cost	319	296	68	55	72	78
Plan amendments	11	—	8	3	—	(8)
Participant contributions	—	—	12	10	—	—
Experience (gain)/loss	(163)	517	20	203	(34)	(45)
Benefit payments	(233)	(241)	(38)	(28)	(75)	(74)
Settlement/curtailment loss	(7)	—	(6)	—	—	—
Special termination benefits	4	21	—	—	1	2
Foreign currency adjustment	—	—	126	(68)	—	—
Other	—	(3)	6	104	48	—
Liability at end of year	\$5,947	\$5,771	\$1,511	\$1,263	\$1,370	\$1,312
Change in fair value of plan assets						
Fair value at beginning of year	\$5,086	\$4,152	\$1,099	\$ 838	\$ —	\$ —
Actual return on plan assets	513	477	112	142	—	—
Employer contributions/funding	19	699	30	104	75	74
Participant contributions	—	—	12	10	—	—
Benefit payments	(233)	(241)	(38)	(28)	(75)	(74)
Settlement/curtailment loss	(7)	—	—	—	—	—
Foreign currency adjustment	—	—	116	(61)	—	—
Other	—	(1)	(1)	94	—	—
Fair value at end of year	\$5,378	\$5,086	\$1,330	\$1,099	\$ —	\$ —
Reconciliation of funded status						
Funded status	\$(569)	\$ (685)	\$(181)	\$(164)	\$(1,370)	\$(1,312)
Adjustment for fourth quarter contributions	6	5	13	4	16	19
Unrecognized prior service cost/(credit)	—	5	—	17	—	(113)
Unrecognized experience loss	—	2,288	—	474	—	402
Net amount recognized	\$(563)	\$1,613	\$(168)	\$ 331	\$(1,354)	\$(1,004)
Amounts recognized						
Other assets	\$ 185	\$2,068	\$ 6	\$367	\$ —	\$ —
Intangible assets	—	—	—	1	—	—
Other current liabilities	(19)	—	(2)	—	(84)	—
Other liabilities	(729)	(479)	(172)	(41)	(1,270)	(1,004)
Minimum pension liability	—	24	—	4	—	—
Net amount recognized	\$(563)	\$1,613	\$(168)	\$331	\$(1,354)	\$(1,004)
Amounts included in accumulated other comprehensive loss (pre-tax)						
Net loss	\$1,836	\$ —	\$475	\$ —	\$ 364	\$ —
Prior service cost/(credit)	13	—	24	—	(101)	—
Minimum pension liability	—	24	—	4	—	—
Total	\$1,849	\$24	\$499	\$ 4	\$ 263	\$ —
Components of the (decrease)/increase in net loss						
Change in discount rate	\$(123)	\$ 365	\$ 2	\$194	\$(30)	\$ 61
Employee-related assumption changes	(45)	57	6	2	—	—
Liability-related experience different from assumptions	5	95	6	7	(4)	(54)
Actual asset return different from expected return	(122)	(133)	(30)	(73)	—	—
Amortization of losses	(164)	(106)	(29)	(15)	(21)	(26)
Other, including foreign currency adjustments and 2003 Medicare Act	(3)	(3)	46	(22)	17	(52)
Total	\$(452)	\$(275)	\$ 1	\$ 93	\$(38)	\$(71)
Liability at end of year for service to date	\$4,998	\$4,783	\$1,239	\$1,047		

Components of benefit expense are as follows:

	Pension						Retiree Medical		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
	U.S.			International					
Components of benefit expense									
Service cost	\$ 245	\$ 213	\$ 193	\$ 52	\$ 32	\$ 27	\$ 46	\$ 40	\$ 38
Interest cost	319	296	271	68	55	47	72	78	72
Expected return on plan assets	(391)	(344)	(325)	(81)	(69)	(65)	–	–	–
Amortization of prior service cost/(credit)	3	3	6	2	1	1	(13)	(11)	(8)
Amortization of net loss	164	106	81	29	15	9	21	26	19
	340	274	226	70	34	19	126	133	121
Settlement/curtailment loss	3	–	4	–	–	1	–	–	–
Special termination benefits	4	21	19	–	–	1	1	2	4
Total	\$ 347	\$ 295	\$ 249	\$ 70	\$ 34	\$ 21	\$ 127	\$ 135	\$ 125

The estimated amounts to be amortized from accumulated other comprehensive loss into benefit expense in 2007 for our pension and retiree medical plans are as follows:

	Pension		Retiree Medical
	U.S.	International	
Net loss	\$136	\$29	\$ 18
Prior service cost/(credit)	5	3	(13)
Total	\$141	\$32	\$ 5

The following table provides the weighted-average assumptions used to determine projected benefit liability and benefit expense for our pension and retiree medical plans:

	Pension						Retiree Medical		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
	U.S.			International					
Weighted average assumptions									
Liability discount rate	5.8%	5.7%	6.1%	5.2%	5.1%	6.1%	5.8%	5.7%	6.1%
Expense discount rate	5.7%	6.1%	6.1%	5.1%	6.1%	6.1%	5.7%	6.1%	6.1%
Expected return on plan assets	7.8%	7.8%	7.8%	7.3%	8.0%	8.0%	–	–	–
Rate of salary increases	4.5%	4.4%	4.5%	3.9%	4.1%	3.9%	–	–	–

The following table provides selected information about plans with liability for service to date and total benefit liability in excess of plan assets:

	Pension				Retiree Medical	
	2006	2005	2006	2005	2006	2005
	U.S.		International			
Selected information for plans with liability for service to date in excess of plan assets						
Liability for service to date	\$(387)	\$(374)	\$(286)	\$(65)		
Fair value of plan assets	\$1	\$8	\$237	\$33		
Selected information for plans with benefit liability in excess of plan assets						
Benefit liability	\$(754)	\$(2,690)	\$(1,387)	\$(1,158)	\$(1,370)	\$(1,312)
Fair value of plan assets	\$1	\$1,758	\$1,200	\$985	–	–

Of the total projected pension benefit liability at year-end 2006, \$701 million relates to plans that we do not fund because the funding of such plans does not receive favorable tax treatment.

Future Benefit Payments and Funding

Our estimated future benefit payments are as follows:

	2007	2008	2009	2010	2011	2012-16
Pension	\$265	\$285	\$310	\$345	\$375	\$2,490
Retiree medical*	\$90	\$95	\$100	\$100	\$105	\$595

*Expected future benefit payments for our retiree medical plans do not reflect any estimated subsidies expected to be received under the Medicare Act. Subsidies are expected to be approximately \$5 million for each of the years from 2007 through 2011 and approximately \$40 million for 2012 through 2016.

These future benefits to beneficiaries include payments from both funded and unfunded pension plans.

In 2007, we expect to make pension contributions of up to \$150 million with up to \$75 million expected to be discretionary. Our cash payments for retiree medical are estimated to be approximately \$85 million in 2007.

Pension Assets

The expected return on pension plan assets is based on our historical experience, our pension plan investment strategy and our expectations for long-term rates of return. We use a market-related value method that

recognizes each year's asset gain or loss over a five-year period. Therefore, it takes five years for the gain or loss from any one year to be fully included in the value of pension plan assets that is used to calculate the expected return. Our pension plan investment strategy is reviewed annually and is established based upon plan liabilities, an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. Our investment objective is to ensure that funds are available to meet the plans' benefit obligations when they are due. Our investment strategy is to prudently invest plan assets in high-quality and diversified

equity and debt securities to achieve our long-term return expectation. Our investment policy also permits the use of derivative instruments to enhance the overall return of the portfolio. We use a third-party advisor to assist us in determining our investment allocation and modeling our long-term rate of return assumptions. Our expected long-term rate of return on U.S. plan assets is 7.8%, reflecting estimated long-term rates of return of 9.3% from equity securities and 5.8% from fixed income securities. Our target allocation and actual pension plan asset allocations for the plan years 2006 and 2005 are as follows:

Asset Category	Target Allocation	Actual Allocation	
		2006	2005
Equity securities	60%	61%	60%
Debt securities	40%	39%	39%
Other, primarily cash	—	—	1%
Total	100%	100%	100%

Pension assets include 5.5 million shares of PepsiCo common stock with a market value of \$358 million in 2006, and 5.5 million shares with a market value of \$311 million in 2005. Our investment policy limits the investment in PepsiCo stock at the time of investment to 10% of the fair value of plan assets.

Retiree Medical Cost Trend Rates

An average increase of 9% in the cost of covered retiree medical benefits is assumed for 2007. This average increase is then projected to decline gradually to 5% in 2011 and thereafter. These assumed health care cost trend rates have an impact on the retiree medical

plan expense and liability. However, the cap on our share of retiree medical costs limits the impact. A 1-percentage-point change in the assumed health care trend rate would have the following effects:

	1% Increase	1% Decrease
2006 service and interest cost components	\$4	\$(3)
2006 benefit liability	\$42	\$(36)

Savings Plan

Our U.S. employees are eligible to participate in 401(k) savings plans, which are voluntary defined contribution plans. The plans are designed to help employees accumulate additional savings for

retirement. We make matching contributions on a portion of eligible pay based on years of service. In 2006 and 2005, our matching contributions were \$56 million and \$52 million, respectively.

For additional unaudited information on our pension and retiree medical plans and related accounting policies and assumptions, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Note 8 – Noncontrolled Bottling Affiliates

Our most significant noncontrolled bottling affiliates are PBG and PAS. Approximately 10% of our total net revenue in 2006, 2005 and 2004 reflects sales to PBG.

The Pepsi Bottling Group

In addition to approximately 38% and 41% of PBG's outstanding common

stock that we own at year-end 2006 and 2005, respectively, we own 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. This gives us economic ownership of approximately 43% and 45% of PBG's combined operations at year-

end 2006 and 2005, respectively. Bottling equity income includes \$186 million and \$126 million of pre-tax gains on our sales of PBG stock in 2006 and 2005, respectively.

PBG's summarized financial information is as follows:

	2006	2005	2004
Current assets	\$ 2,749	\$ 2,412	
Noncurrent assets	9,178	9,112	
Total assets	\$11,927	\$11,524	
Current liabilities	\$2,051	\$2,598	
Noncurrent liabilities	7,252	6,387	
Minority interest	540	496	
Total liabilities	\$9,843	\$9,481	
Our investment	\$1,842	\$1,738	
Net revenue	\$12,730	\$11,885	\$10,906
Gross profit	\$5,920	\$5,632	\$5,250
Operating profit	\$1,017	\$1,023	\$976
Net income	\$522	\$466	\$457

Our investment in PBG, which includes the related goodwill, was \$500 million and \$400 million higher than our ownership interest in their net assets at year-end 2006 and 2005, respectively. Based upon the quoted closing price of PBG shares at year-end 2006 and 2005, the calculated market value of our shares in PBG, excluding our investment in Bottling Group, LLC, exceeded our investment balance by approximately \$1.4 billion and \$1.5 billion, respectively.

PepsiAmericas

At year-end 2006 and 2005, we owned approximately 44% and 43% of PepsiAmericas, respectively, and their summarized financial information is as follows:

	2006	2005	2004
Current assets	\$ 675	\$ 598	
Noncurrent assets	3,532	3,456	
Total assets	\$4,207	\$4,054	
Current liabilities	\$ 694	\$ 722	
Noncurrent liabilities	1,909	1,763	
Total liabilities	\$2,603	\$2,485	
Our investment	\$1,028	\$968	
Net revenue	\$3,972	\$3,726	\$3,345
Gross profit	\$1,608	\$1,562	\$1,423
Operating profit	\$356	\$393	\$340
Net income	\$158	\$195	\$182

Our investment in PAS, which includes the related goodwill, was \$316 million and \$292 million higher than our ownership interest in their net assets at year-end 2006 and 2005, respectively. Based upon the quoted closing price of PAS shares at year-end 2006 and 2005, the calculated market value of our shares in PepsiAmericas exceeded our investment balance by approximately \$173 million and \$364 million, respectively.

In January 2005, PAS acquired a regional bottler, Central Investment Corporation. The table includes the results of Central Investment Corporation from the transaction date forward.

Related Party Transactions

Our significant related party transactions involve our noncontrolled bottling affiliates. We sell concentrate to these affiliates, which they use in the produc-

tion of CSDs and non-carbonated beverages. We also sell certain finished goods to these affiliates and we receive royalties for the use of our trademarks for certain products. Sales of concentrate

and finished goods are reported net of bottler funding. For further unaudited information on these bottlers, see "Our Customers" in Management's Discussion and Analysis.

These transactions with our bottling affiliates are reflected in our consolidated financial statements as follows:

	2006	2005	2004
Net revenue	\$4,837	\$4,633	\$4,170
Selling, general and administrative expenses	\$87	\$143	\$114
Accounts and notes receivable	\$175	\$178	
Accounts payable and other current liabilities	\$62	\$117	

Such amounts are settled on terms consistent with other trade receivables and payables. See Note 9 regarding our guarantee of certain PBG debt.

In addition, we coordinate, on an aggregate basis, the negotiation and purchase of sweeteners and other raw materials requirements for certain of

our bottlers with suppliers. Once we have negotiated the contracts, the bottlers order and take delivery directly from the supplier and pay the suppliers directly. Consequently, these transactions are not reflected in our consolidated financial statements. As the contracting party, we could be liable to these suppliers in the event of any nonpayment by our bottlers, but we consider this exposure to be remote.

Note 9 – Debt Obligations and Commitments

	2006	2005
Short-term debt obligations		
Current maturities of long-term debt	\$ 605	\$ 143
Commercial paper (5.3% and 3.3%)	792	3,140
Other borrowings (7.3% and 7.4%)	377	356
Amounts reclassified to long-term debt	(1,500)	(750)
	\$ 274	\$2,889
Long-term debt obligations		
Short-term borrowings, reclassified	\$1,500	\$ 750
Notes due 2007-2026 (6.0% and 5.4%)	1,148	1,161
Zero coupon notes, \$425 million due 2007-2012 (13.4%)	299	312
Other, due 2007-2016 (6.1% and 6.3%)	208	233
	\$3,155	2,456
Less: current maturities of long-term debt obligations	(605)	(143)
	\$2,550	\$2,313

The interest rates in the above table reflect weighted-average rates at year-end.

In the second quarter of 2006, we entered into a new unsecured revolving credit agreement which enables us to borrow up to \$1.5 billion subject to customary terms and conditions. Funds borrowed under this agreement may be used for general corporate purposes, including supporting our outstanding commercial paper issuances. The agreement terminates in May 2011 and replaces our previous \$2.1 billion of credit facilities. As of December 30, 2006, we have reclassified \$1.5 billion of short-term debt to long-term based on our intent and ability to refinance on a long-term basis.

In addition, \$394 million of our debt related to borrowings from various lines of credit maintained for our international divisions. These lines of credit are subject to normal banking terms and conditions

and are fully committed to the extent of our borrowings.

In the third quarter of 2006, we entered into a U.S. \$2.5 billion euro medium term note program. Under the program, we may issue unsecured notes under mutually agreed upon terms with the purchasers of the notes. Proceeds from any issuance of notes may be used for general corporate purposes, except as otherwise specified in the related prospectus. As of December 30, 2006, we have no outstanding notes under the program.

Interest Rate Swaps

We entered into interest rate swaps in 2004 to effectively convert the interest rate of a specific debt issuance from a fixed rate of 3.2% to a variable rate. The variable weighted-average interest rate that we pay is linked to LIBOR and is subject to change. The notional

amount of the interest rate swaps outstanding at December 30, 2006 and December 31, 2005 was \$500 million. The terms of the interest rate swaps match the terms of the debt they modify. The swaps mature in May 2007.

At December 30, 2006, approximately 63% of total debt, after the impact of the related interest rate swaps, was exposed to variable interest rates, compared to 78% at December 31, 2005. In addition to variable rate long-term debt, all debt with maturities of less than one year is categorized as variable for purposes of this measure.

Cross Currency Interest Rate Swaps

In 2004, we entered into a cross currency interest rate swap to hedge the currency exposure on U.S. dollar denominated debt of \$50 million held by a foreign affiliate. The terms of this swap match the terms of the debt it modifies. The swap matures in 2008. The unrealized gain related to this swap was less than \$1 million at December 30, 2006 and December 31, 2005, resulting in a U.S. dollar liability of \$50 million. We have also entered into cross currency interest rate swaps to hedge the currency exposure on U.S. dollar denominated intercompany debt of \$95 million at December 30, 2006 and \$125 million at December 31, 2005. The terms of the swaps match the terms of the debt they modify. The swaps mature in 2007. The net unrealized loss related to these swaps was less than \$1 million at December 30, 2006 and the net unrealized gain related to these swaps was \$5 million at December 31, 2005.

Long-Term Contractual Commitments

Payments Due by Period	Total	2007	2008-2009	2010-2011	2012 and beyond
Long-term debt obligations ^(a)	\$ 1,050	\$ –	\$ 583	\$ 125	\$ 342
Interest on debt obligations ^(b)	295	50	57	43	145
Operating leases	922	231	302	176	213
Purchasing commitments	5,205	1,357	2,216	871	761
Marketing commitments	1,199	287	453	332	127
Other commitments	279	229	43	5	2
	\$8,950	\$2,154	\$3,654	\$1,552	\$1,590

(a) Excludes current maturities of long-term debt of \$605 million which are classified within current liabilities, as well as short-term borrowings reclassified as long-term debt of \$1,500 million.

(b) Interest payments on floating-rate debt are estimated using interest rates effective as of December 30, 2006.

The above table reflects non-cancelable commitments as of December 30, 2006 based on year-end foreign exchange rates.

Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Non-cancelable operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for oranges and orange juice, cooking oil and packaging materials. Non-cancelable marketing commitments primarily are for sports marketing. Bottler funding is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. See Note 7 regarding our pension and retiree medical obligations and discussion below regarding our commitments to noncontrolled bottling affiliates and former restaurant operations.

Off-Balance-Sheet Arrangements

It is not our business practice to enter into off-balance-sheet arrangements, other than in the normal course of business, nor is it our policy to issue guarantees to our bottlers, non-controlled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. In connection with these transactions, we have guaranteed \$2.3 billion of Bottling Group, LLC's long-term debt through 2012 and \$23 million of YUM! Brands, Inc.'s (YUM) outstanding obligations, primarily property leases, through 2020. The terms of our Bottling Group, LLC debt guarantee are intended to preserve the

structure of PBG's separation from us and our payment obligation would be triggered if Bottling Group, LLC failed to perform under these debt obligations or the structure significantly changed. Our guarantees of certain obligations ensured YUM's continued use of certain properties. These guarantees would require our cash payment if YUM failed to perform under these lease obligations.

See "Our Liquidity and Capital Resources" in Management's Discussion and Analysis for further unaudited information on our borrowings.

Note 10 – Risk Management

We are exposed to the risk of loss arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy,
- foreign exchange risks,
- interest rates,
- stock prices, and
- discount rates affecting the measurement of our pension and retiree medical liabilities.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through

earnings. See "Our Business Risks" in Management's Discussion and Analysis for further unaudited information on our business risks.

For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings

impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. If the derivative instrument is terminated, we continue to defer the related gain or loss and include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss in net income in that period.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes, and we

limit our exposure to individual counterparties to manage credit risk.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivatives. We use derivatives, with terms of no more than two years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for natural gas and diesel fuel. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately. However, such commodity cash flow hedges have not had any significant ineffectiveness for all periods presented. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net gains of \$1 million related to cash flow hedges from accumulated other comprehensive loss into net income. Derivatives

used to hedge commodity price risks that do not qualify for hedge accounting are marked to market each period and reflected in our income statement.

Foreign Exchange

Our operations outside of the U.S. generate approximately 40% of our net revenue, with Mexico, the United Kingdom and Canada comprising approximately 20% of our net revenue. As a result, we are exposed to foreign currency risks from unforeseen economic changes and political unrest. On occasion, we enter into hedges, primarily forward contracts with terms of no more than two years, to reduce the effect of foreign exchange rates. Ineffectiveness of these hedges has not been material.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We may use interest rate and cross currency interest rate swaps to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. These

swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. These swaps are entered into only with strong creditworthy counterparties, are settled on a net basis and are of relatively short duration.

Stock Prices

The portion of our deferred compensation liability that is based on certain market indices and on our stock price is subject to market risk. We hold mutual fund investments and prepaid forward contracts to manage this risk. Changes in the fair value of these investments and contracts are recognized immediately in earnings and are offset by changes in the related compensation liability.

Fair Value

All derivative instruments are recognized on our balance sheet at fair value. The fair value of our derivative instruments is generally based on quoted market prices. Book and fair values of our derivative and financial instruments are as follows:

	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash and cash equivalents ^(a)	\$1,651	\$1,651	\$1,716	\$1,716
Short-term investments ^(b)	\$1,171	\$1,171	\$3,166	\$3,166
Forward exchange contracts ^(c)	\$8	\$8	\$19	\$19
Commodity contracts ^(d)	\$2	\$2	\$41	\$41
Prepaid forward contracts ^(e)	\$73	\$73	\$107	\$107
Cross currency interest rate swaps ^(f)	\$1	\$1	\$6	\$6
Liabilities				
Forward exchange contracts ^(c)	\$24	\$24	\$15	\$15
Commodity contracts ^(d)	\$29	\$29	\$3	\$3
Debt obligations	\$2,824	\$2,955	\$5,202	\$5,378
Interest rate swaps ^(g)	\$4	\$4	\$9	\$9

The above items are included on our balance sheet under the captions noted or as indicated below. In addition, derivatives qualify for hedge accounting unless otherwise noted below.

(a) Book value approximates fair value due to the short maturity.

(b) Principally short-term time deposits and includes \$145 million at December 30, 2006 and \$124 million at December 31, 2005 of mutual fund investments used to manage a portion of market risk arising from our deferred compensation liability.

(c) The 2006 liability includes \$10 million related to derivatives that do not qualify for hedge accounting and the 2005 asset includes \$14 million related to derivatives that do not qualify for hedge accounting. Assets are reported within current assets and other assets and liabilities are reported within current liabilities and other liabilities.

(d) The 2006 liability includes \$28 million related to derivatives that do not qualify for hedge accounting. The 2005 asset includes \$2 million related to derivatives that do not qualify for hedge accounting and the liability relates entirely to derivatives that do not qualify for hedge accounting. Assets are reported within current assets and other assets and liabilities are reported within current liabilities and other liabilities.

(e) Included in current assets and other assets.

(f) Asset included within other assets.

(g) Reported in other liabilities.

This table excludes guarantees, including our guarantee of \$2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of \$35 million at December 30, 2006 and \$47 million at December 31, 2005 based on a third-party estimate of the cost to us of transferring the liability to an independent financial institution. See Note 9 for additional information on our guarantees.

Note 11 – Net Income per Common Share from Continuing Operations

Basic net income per common share is net income available to common shareholders divided by the weighted average of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted average of common shares outstanding adjusted to include

the effect that would occur if in-the-money employee stock options were exercised and RSUs and preferred shares were converted into common shares. Options to purchase 0.1 million shares in 2006, 3.0 million shares in 2005 and 7.0 million shares in 2004 were not included in the calculation of

diluted earnings per common share because these options were out-of-the-money. Out-of-the-money options had average exercise prices of \$65.24 in 2006, \$53.77 in 2005 and \$52.88 in 2004.

The computations of basic and diluted net income per common share from continuing operations are as follows:

	2006		2005		2004	
	Income	Shares ^(a)	Income	Shares ^(a)	Income	Shares ^(a)
Net income	\$5,642		\$4,078		\$4,174	
Preferred shares:						
Dividends	(2)		(2)		(3)	
Redemption premium	(9)		(16)		(22)	
Net income available for common shareholders	\$5,631	1,649	\$4,060	1,669	\$4,149	1,696
Basic net income per common share	\$3.42		\$2.43		\$2.45	
Net income available for common shareholders	\$5,631	1,649	\$4,060	1,669	\$4,149	1,696
Dilutive securities:						
Stock options and RSUs	–	36	–	35	–	31
ESOP convertible preferred stock	11	2	18	2	24	2
Diluted	\$5,642	1,687	\$4,078	1,706	\$4,173	1,729
Diluted net income per common share	\$3.34		\$2.39		\$2.41	

(a) Weighted-average common shares outstanding.

Note 12 – Preferred and Common Stock

As of December 30, 2006 and December 31, 2005, there were 3.6 billion shares of common stock and 3 million shares of convertible preferred stock authorized. The preferred stock was issued only for an ESOP established by Quaker and these shares are redeemable for common stock by the ESOP participants. The preferred stock accrues dividends at an annual rate of \$5.46 per share. At year-end 2006 and 2005, there were

803,953 preferred shares issued and 320,853 and 354,853 shares outstanding, respectively. The outstanding preferred shares had a fair value of \$100 million as of December 30, 2006 and \$104 million as of December 31, 2005. Each share is convertible at the option of the holder into 4.9625 shares of common stock. The preferred shares may be called by us upon written notice at \$78 per share plus accrued and

unpaid dividends. There were 17 million shares of common stock held in the accounts of ESOP participants as of December 30, 2006 and December 31, 2005. Quaker made the final award to its ESOP plan in June 2001.

	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Preferred stock	0.8	\$41	0.8	\$41	0.8	\$41
Repurchased preferred stock						
Balance, beginning of year	0.5	\$110	0.4	\$ 90	0.3	\$63
Redemptions	–	10	0.1	19	0.1	27
Balance, end of year	0.5	\$120	0.5	\$110*	0.4	\$90

*Does not sum due to rounding.

Note 13 – Accumulated Other Comprehensive Loss

Comprehensive income is a measure of income which includes both net income and other comprehensive income or loss. Other comprehensive income or loss results from items deferred from

recognition into our income statement. Accumulated other comprehensive loss is separately presented on our balance sheet as part of common shareholders' equity. Other comprehensive

income/(loss) was \$456 million in 2006, \$(167) million in 2005 and \$381 million in 2004. The accumulated balances for each component of other comprehensive loss were as follows:

	2006	2005	2004
Currency translation adjustment	\$ (506)	\$ (971)	\$(720)
Cash flow hedges, net of tax ^(a)	4	27	(19)
Unamortized pension and retiree medical, net of tax ^(b)	(1,782)	–	–
Minimum pension liability adjustment ^(c)	–	(138)	(154)
Unrealized gain on securities, net of tax	40	31	7
Other	(2)	(2)	–
Accumulated other comprehensive loss	\$(2,246)	\$(1,053)	\$(886)

(a) Includes \$3 million gain in 2006, no impact in 2005 and \$6 million gain in 2004 for our share of our equity investees' accumulated derivative activity.

(b) Net of taxes of \$964 million in 2006.

(c) Net of taxes of \$72 million in 2005 and \$77 million in 2004. Also includes \$120 million in 2005 and \$121 million in 2004 for our share of our equity investees' minimum pension liability adjustments.

Note 14 – Supplemental Financial Information

	2006	2005	2004
Accounts receivable			
Trade receivables	\$3,147	\$2,718	
Other receivables	642	618	
	<u>3,789</u>	<u>3,336</u>	
Allowance, beginning of year	75	97	\$105
Net amounts charged/(credited) to expense	10	(1)	18
Deductions ^(a)	(27)	(22)	(25)
Other ^(b)	6	1	(1)
Allowance, end of year	<u>64</u>	<u>75</u>	<u>\$ 97</u>
Net receivables	\$3,725	\$3,261	
Inventories^(c)			
Raw materials	\$ 860	\$ 738	
Work-in-process	140	112	
Finished goods	926	843	
	<u>\$1,926</u>	<u>\$1,693</u>	

(a) Includes accounts written off.

(b) Includes currency translation effects and other adjustments.

(c) Inventories are valued at the lower of cost or market. Cost is determined using the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods. Approximately 19% in 2006 and 17% in 2005 of the inventory cost was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories were not material.

	2006	2005	2004
Other assets			
Non-current notes and accounts receivable	\$149	\$ 186	
Deferred marketplace spending	232	281	
Unallocated purchase price for recent acquisitions	196	256	
Pension plans	197	2,440	
Other	206	240	
	<u>\$980</u>	<u>\$3,403</u>	
Accounts payable and other current liabilities			
Accounts payable	\$2,102	\$1,799	
Accrued marketplace spending	1,444	1,383	
Accrued compensation and benefits	1,143	1,062	
Dividends payable	492	431	
Other current liabilities	1,315	1,296	
	<u>\$6,496</u>	<u>\$5,971</u>	
Other liabilities			
Reserves for income taxes	\$1,435	\$1,884	
Other	3,189	2,439	
	<u>\$4,624</u>	<u>\$4,323</u>	
Other supplemental information			
Rent expense	\$291	\$228	\$245
Interest paid	\$215	\$213	\$137
Income taxes paid, net of refunds	\$2,155	\$1,258	\$1,833
Acquisitions^(a)			
Fair value of assets acquired	\$ 678	\$ 1,089	\$ 78
Cash paid and debt issued	(522)	(1,096)	(64)
SVE minority interest eliminated	–	216	–
Liabilities assumed	\$ 156	\$ 209	\$ 14

(a) In 2005, these amounts include the impact of our acquisition of General Mills, Inc.'s 40.5% ownership interest in SVE for \$750 million. The excess of our purchase price over the fair value of net assets acquired is \$250 million and is included in goodwill. We also reacquired rights to distribute global brands for \$263 million which is included in other nonamortizable intangible assets.

Management's Responsibility for Financial Reporting

To Our Shareholders:

At PepsiCo, our actions — the actions of all our associates — are governed by our Worldwide Code of Conduct. This code is clearly aligned with our stated values — a commitment to sustained growth, through empowered people, operating with responsibility and building trust. Both the code and our core values enable us to operate with integrity — both within the letter and the spirit of the law. Our code of conduct is reinforced consistently at all levels and in all countries. We have maintained strong governance policies and practices for many years.

The management of PepsiCo is responsible for the objectivity and integrity of our consolidated financial statements. The Audit Committee of the Board of Directors has engaged independent registered public accounting firm, KPMG LLP, to audit our consolidated financial statements and they have expressed an unqualified opinion.

We are committed to providing timely, accurate and understandable information to investors. Our commitment encompasses the following:

Maintaining strong controls over financial reporting. Our system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, Internal Control — Integrated Framework. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in the U.S. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified time periods. We monitor these internal controls through self-assessments and an ongoing program of internal audits. Our internal controls are reinforced through our Worldwide Code of Conduct, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law.

Exerting rigorous oversight of the business. We continuously review our business results and strategies. This encompasses financial discipline in our strategic and daily business decisions. Our Executive Committee is actively involved — from understanding strategies and alternatives to reviewing key initiatives and financial performance. The intent is to ensure we remain objective in our assessments, constructively challenge our approach to potential business opportunities and issues, and monitor results and controls.

Engaging strong and effective Corporate Governance from our Board of Directors. We have an active, capable and diligent Board that meets the required standards for independence, and we welcome the Board's oversight as a representative of our shareholders. Our Audit Committee is comprised of independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. We review our critical accounting policies, financial reporting and internal control matters with them and encourage their direct communication with KPMG LLP, with our General Auditor, and with our General Counsel. We also have a senior compliance officer to lead and coordinate our compliance policies and practices.

Providing investors with financial results that are complete, transparent and understandable. The consolidated financial statements and financial information included in this report are the responsibility of management. This includes preparing the financial statements in accordance with accounting principles generally accepted in the U.S., which require estimates based on management's best judgment.

PepsiCo has a strong history of doing what's right. We realize that great companies are built on trust, strong ethical standards and principles. Our financial results are delivered from that culture of accountability, and we take responsibility for the quality and accuracy of our financial reporting.



Peter A. Bridgman
Senior Vice President and Controller



Richard Goodman
Chief Financial Officer



Indra K. Nooyi
President and Chief Executive Officer

Management's Report on Internal Control over Financial Reporting

To Our Shareholders:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 30, 2006.

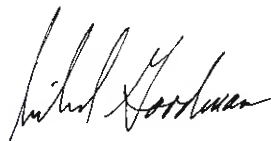
KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report and, as part of their audit, has issued their attestation report, included herein, (1) on our management's assessment of the effectiveness of our internal controls over financial reporting and (2) on the effectiveness of our internal control over financial reporting.

During our fourth fiscal quarter of 2006, we began migrating certain of our financial processing systems to SAP software. This software implementation is part of our ongoing Business Process Transformation initiative, and we plan to continue implementing such software throughout other parts of our businesses over the course of the next few years. In connection with the SAP implementation, we are modifying the design and documentation of our internal control processes and procedures relating to the new software.

Except as described above, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during our fourth fiscal quarter of 2006.



Peter A. Bridgman
Senior Vice President and Controller



Richard Goodman
Chief Financial Officer



Indra K. Nooyi
President and Chief Executive Officer

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders PepsiCo, Inc.:

We have audited the accompanying Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 30, 2006 and December 31, 2005 and the related Consolidated Statements of Income, Cash Flows and Common Shareholders' Equity for each of the years in the three-year period ended December 30, 2006. We have also audited management's assessment, included in Management's Report on Internal Control over Financial Reporting that PepsiCo, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). PepsiCo, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements, an opinion on management's assessment, and an opinion on the effectiveness of PepsiCo, Inc.'s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 30, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 30, 2006, in conformity with United States generally accepted accounting principles. Also, in our opinion, management's assessment that PepsiCo, Inc. maintained effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by COSO. Furthermore, in our opinion, PepsiCo, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control — Integrated Framework issued by COSO.

As discussed in Note 7 to the consolidated financial statements, PepsiCo, Inc. and Subsidiaries adopted the provisions of FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment to FASB Statements No. 87, 88, 106 and 132(R)," as of December 30, 2006.

KPMG LLP

KPMG LLP
New York, New York
February 16, 2007

Selected Financial Data (in millions except per share amounts, unaudited)

Quarterly	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenue				
2006	\$7,205	\$8,599	\$8,950	\$10,383
2005	\$6,585	\$7,697	\$8,184	\$10,096
Gross profit				
2006	\$4,026	\$4,790	\$4,920	\$5,639
2005	\$3,715	\$4,383	\$4,669	\$5,619
2006 restructuring and impairment charges^(a)				
2006	—	—	—	\$67
2005 restructuring charges^(a)				
2005	—	—	—	\$83
2006 Tax Adjustments^(b)				
2006	—	—	—	\$(602)
AJCA tax charge^(c)				
2005	—	—	\$468	\$(8)
Net income				
2006	\$1,019	\$1,358	\$1,481	\$1,784
2005	\$912	\$1,194	\$864	\$1,108
Net income per common share — basic				
2006	\$0.61	\$0.82	\$0.90	\$1.09
2005	\$0.54	\$0.71	\$0.52	\$0.66
Net income per common share — diluted				
2006	\$0.60	\$0.80	\$0.88	\$1.06
2005	\$0.53	\$0.70	\$0.51	\$0.65
Cash dividends declared per common share				
2006	\$0.26	\$0.30	\$0.30	\$0.30
2005	\$0.23	\$0.26	\$0.26	\$0.26
2006 stock price per share^(d)				
High	\$60.55	\$61.19	\$65.99	\$65.99
Low	\$56.00	\$56.51	\$58.65	\$61.15
Close	\$59.34	\$59.70	\$64.73	\$62.55
2005 stock price per share^(d)				
High	\$55.71	\$57.20	\$56.73	\$60.34
Low	\$51.34	\$51.78	\$52.07	\$53.55
Close	\$52.62	\$55.52	\$54.65	\$59.08

The first, second, and third quarters consist of 12 weeks and the fourth quarter consists of 16 weeks in 2006 and 17 weeks in 2005.

- (a) The 2006 restructuring and impairment charges were \$67 million (\$43 million or \$0.03 per share after-tax). The 2005 restructuring charges were \$83 million (\$55 million or \$0.03 per share after-tax). See Note 3.
- (b) Represents non-cash tax benefits in connection with the 2006 Tax Adjustments. See Note 5.
- (c) Represents income tax expense associated with our repatriation of earnings in connection with the AJCA. See Note 5.
- (d) Represents the composite high and low sales price and quarterly closing prices for one share of PepsiCo common stock.

Five-Year Summary	2006	2005	2004
Net revenue	\$35,137	\$32,562	\$29,261
Income from continuing operations	\$5,642	\$4,078	\$4,174
Net income	\$5,642	\$4,078	\$4,212
Income per common share — basic, continuing operations	\$3.42	\$2.43	\$2.45
Income per common share — diluted, continuing operations	\$3.34	\$2.39	\$2.41
Cash dividends declared per common share	\$1.16	\$1.01	\$0.85
Total assets	\$29,930	\$31,727	\$27,987
Long-term debt	\$2,550	\$2,313	\$2,397
Return on invested capital ^(a)	30.4%	22.7%	27.4%

Five-Year Summary (Cont.)	2003	2002
Net revenue	\$26,971	\$25,112
Net income	\$3,568	\$3,000
Income per common share — basic	\$2.07	\$1.69
Income per common share — diluted	\$2.05	\$1.68
Cash dividends declared per common share	\$0.63	\$0.595
Total assets	\$25,327	\$23,474
Long-term debt	\$1,702	\$2,187
Return on invested capital ^(a)	27.5%	25.7%

(a) Return on invested capital is defined as adjusted net income divided by the sum of average shareholders' equity and average total debt. Adjusted net income is defined as net income plus net interest expense after-tax. Net interest expense after-tax was \$72 million in 2006, \$62 million in 2005, \$60 million in 2004, \$72 million in 2003 and \$93 million in 2002.

• Includes restructuring and impairment charges of:

	2006	2005	2004	2003
Pre-tax	\$67	\$83	\$150	\$147
After-tax	\$43	\$55	\$96	\$100
Per share	\$0.03	\$0.03	\$0.06	\$0.06

• Includes Quaker merger-related costs of:

	2003	2002
Pre-tax	\$59	\$224
After-tax	\$42	\$190
Per share	\$0.02	\$0.11

- In 2006, we recognized non-cash tax benefits of \$602 million (\$0.36 per share) in connection with the 2006 Tax Adjustments. In 2005, we recorded income tax expense of \$460 million (\$0.27 per share) related to our repatriation of earnings in connection with the AJCA. In 2004, we reached agreement with the IRS for an open issue related to our discontinued restaurant operations which resulted in a tax benefit of \$38 million (\$0.02 per share).
- On December 30, 2006, we adopted SFAS 158 which reduced total assets by \$2,016 million, total common shareholders' equity by \$1,643 million and total liabilities by \$373 million.
- The 2005 fiscal year consisted of fifty-three weeks compared to fifty-two weeks in our normal fiscal year. The 53rd week increased 2005 net revenue by an estimated \$418 million and net income by an estimated \$57 million (\$0.03 per share).

Reconciliation of GAAP and Non-GAAP Information

The financial measures listed below are not measures defined by generally accepted accounting principles. However, we believe investors should consider these measures as they are more indicative of our ongoing performance. Specifically, investors should consider the following:

- Our 2006 and 2005 division operating profit and our 2006 division operating profit growth;
- Our 2006 net income without the impact of the 2006 Tax Adjustments, our share of PBG's tax settlement and restructuring and impairment charges; our 2005 net income without the impact of the AJCA tax charge, restructuring charges and the extra week in 2005; and our 2006 net income growth without the impact of the aforementioned items;
- Our 2006 diluted EPS without the impact of the 2006 Tax Adjustments, our share of PBG's tax settlement and restructuring and impairment charges; our 2005 diluted EPS without the impact of the AJCA tax charge, restructuring charges and the extra week in 2005; our 2006 diluted EPS growth without the impact of the aforementioned items; and our 2004 diluted EPS without the impact of restructuring and impairment charges and certain tax benefits; and
- Our 2006 return on invested capital (ROIC) without the impact of the 2006 Tax Adjustments, our adoption of SFAS 158, the AJCA tax charge, restructuring and impairment charges and the extra week in 2005.

Operating Profit Reconciliation	2006	2005	Growth
Total PepsiCo Reported			
Operating Profit	\$6,439	\$5,922	9%
Corporate Unallocated	733	788	
PepsiCo Total Division			
Operating Profit	\$7,172	\$6,710	7%

Net Income Reconciliation	2006	2005	Growth
Reported Net Income	\$5,642	\$4,078	38%
2006 Tax Adjustments	(602)	—	
PepsiCo Share of PBG Tax Settlement	(18)	—	
AJCA Tax Charge	—	460	
Extra Week	—	(57)	
Restructuring and Impairment Charges	43	55	
Net Income Excluding above Items	\$5,065	\$4,536	12%

Diluted EPS Reconciliation	2006	2005	2006 Growth	2004
Reported Diluted EPS	\$3.34	\$2.39	40%	\$2.44
2006 Tax Adjustments	(0.36)	—		—
PepsiCo Share of PBG Tax Settlement	(0.01)	—		—
AJCA Tax Charge	—	0.27		—
Extra Week	—	(0.03)		—
Restructuring and Impairment Charges	0.03	0.03		0.06
2004 Tax Benefits	—	—		(0.18)
Diluted EPS Excluding above Items	\$3.00	\$2.66	13%	\$2.32

ROIC Reconciliation	2006
Reported ROIC	30%
2006 Tax Adjustments	(3)
SFAS 158 Adoption	(1)
AJCA Tax Charge	(1)
ROIC Excluding above Items	26%*

* Does not sum due to rounding. Additionally, the impact on ROIC of the 2006 and 2005 restructuring and impairment charges and the extra week in 2005 rounds to zero.

Glossary

Anchor bottlers: The Pepsi Bottling Group (PBG), PepsiAmericas (PAS) and Pepsi Bottling Ventures (PBV).

Bottler: customers to whom we have granted exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographical area.

Bottler Case Sales (BCS): measure of physical beverage volume sold from our bottlers to independent distributors and retailers.

Bottler funding: financial incentives we give to our bottlers to assist in the distribution and promotion of our beverage products.

Business Process Transformation (BPT): our comprehensive multi-year effort to drive efficiencies. It includes efforts to consolidate, or integrate, key business functions to take advantage of our scale. It also includes moving to a common set of processes that underlie our key activities, and supporting them with a common technology application. And finally, it includes our SAP installation, the computer system that will link all of our systems and processes.

Concentrate Shipments and Equivalents (CSE): measure of our physical beverage volume sold to our customers. This measure is reported on our fiscal year basis.

Consumers: people who eat and drink our products.

Customers: authorized bottlers and independent distributors and retailers.

CSD: carbonated soft drinks.

Derivatives: financial instruments that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates and stock prices.

Direct-Store-Delivery (DSD): delivery system used by us and our bottlers to deliver snacks and beverages directly to retail stores where our products are merchandised.

Effective net pricing: reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

Management operating cash flow: net cash provided by operating activities less capital spending plus sales of property, plant and equipment. It is our primary measure used to monitor cash flow performance.

Marketplace spending: sales incentives offered through various programs to our customers and consumers (trade spending), as well as advertising and other marketing activities.

Servings: common metric reflecting our consolidated physical unit volume. Our divisions' physical unit measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

Smart Spot: our initiative that helps consumers find our products that can contribute to healthier lifestyles.

Transaction gains and losses: the impact on our consolidated financial statements of exchange rate changes arising from specific transactions.

Translation adjustments: the impact of the conversion of our foreign affiliates' financial statements to U.S. dollars for the purpose of consolidating our financial statements.

Common Stock Information

Stock Trading Symbol — PEP Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo common stock, which is also listed on the Amsterdam, Chicago and Swiss Stock Exchanges.

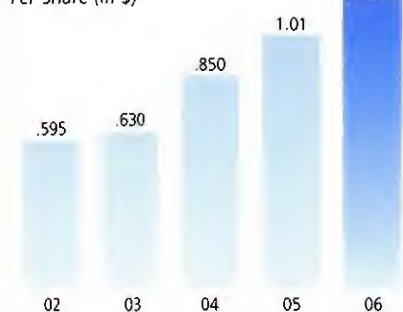
Shareholders

At year-end 2006, there were approximately 190,000 shareholders of record.

Dividend Policy

We target an annual dividend payout of approximately 45% of prior year's net income from continuing operations. Dividends are usually declared in January, May, July and November and paid at the end of March, June and September and the beginning of January. The dividend record dates for these payments are March 9, and, subject to approval of the Board of Directors, expected to be June 8, September 7 and December 7, 2007. We have paid quarterly cash dividends since 1965.

Cash Dividends Declared Per Share (In \$)

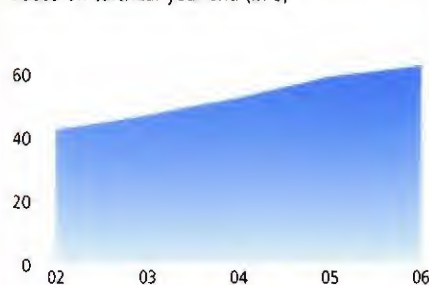


Stock Performance

PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A \$1,000 investment in our stock made on December 31, 2001 was worth about \$1,393 on December 31, 2006, assuming the reinvestment of dividends into PepsiCo stock. This performance represents a compounded annual growth rate of 7%.

The closing price for a share of PepsiCo common stock on the New York Stock Exchange was the price as reported by Bloomberg for the years ending 2002-2006. Past performance is not necessarily indicative of future returns on investments in PepsiCo common stock.

Year-end Market Price of Stock Based on calendar year-end (In \$)



PepsiCo's Annual Report contains many of the valuable trademarks owned and/or used by PepsiCo and its subsidiaries and affiliates in the United States and internationally to distinguish products and services of outstanding quality. America On the Move™ is an initiative of the nonprofit organization, The Partnership to Promote Healthy Eating and Active Living (The Partnership: www.americaonthemove.org). Komen Race for the Cure is an initiative of the National Volunteer Recognition Program.

Design: Eisenman Associates. Cover concept: Sondra Greenspan, Arcanna, Inc. Cover illustrations: 3DI Studio. Printing: L.P. Thebault. Photography: Stephen Wilkes, Ben Rosenthal, Grover Sterling, Steve Bonini, Kayte Deidoma, PhotoBureau. Special thanks to Starbucks.

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Shareholder Information

Annual Meeting

The Annual Meeting of Shareholders will be held at Frito-Lay Corporate Headquarters, 7701 Legacy Drive, Plano, Texas, on Wednesday, May 2, 2007, at 9 a.m. local time. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

Registered Shareholders (shares held by you in your name) should address communications concerning transfers, statements, dividend payments, address changes, lost certificates and other administrative matters to:

The Bank of New York
Shareholder Services Department
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Telephone: 800-226-0083
212-815-3700 (Outside the U.S.)

E-mail: shareowners@bankofny.com
Website: www.stockbny.com
or
Manager Shareholder Relations
PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577
Telephone: 914-253-3055

In all correspondence or telephone inquiries, please mention PepsiCo, your name as printed on your stock certificate, your Social Security number, your address and telephone number.

SharePower Participants (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Unit
1600 Merrill Lynch Drive
Mail Stop 06-02-SOP
Pennington, NJ 08534
Telephone: 800-637-6713 (U.S., Puerto Rico
and Canada)
609-818-8800 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants

PepsiCo 401(k) Plan & PepsiCo Stock Purchase Program

The PepsiCo Savings & Retirement Center at Fidelity
P.O. Box 770003
Cincinnati, OH 45277-0065
Telephone: 800-632-2014
(Overseas: Dial your country's AT&T Access Number
+800-632-2014. In the U.S., access numbers are available by calling 800-331-1140. From anywhere in the world, access numbers are available online at www.att.com/traveler.)
Website: www.netbenefits.fidelity.com

PepsiCo Stock Purchase Program — for Canadian employees:
Fidelity Stock Plan Services
P.O. Box 5000
Cincinnati, OH 45273-8398
Telephone: 800-544-0275
Website: www.iStockPlan.com/ESPP
Please have a copy of your most recent statement available when calling with inquiries.

If using overnight or certified mail send to:
Fidelity Investments
100 Crosby Parkway
Mail Zone KC1F-L
Covington, KY 41015

Shareholder Services

BuyDIRECT Plan

Interested investors can make their initial purchase directly through The Bank of New York, transfer agent for PepsiCo, and Administrator for the Plan. A brochure detailing the Plan is available on our website www.pepsico.com or from our transfer agent:

The Bank of New York
PepsiCo Plan
Church Street Station
P.O. Box 1958
Newark, NJ 07101-9774
Telephone: 800-226-0083
212-815-3700 (Outside the U.S.)
Website: www.stockbny.com
E-mail: shareowners@bankofny.com

Other services include dividend reinvestment, optional cash investments by electronic funds transfer or check drawn on a U.S. bank, sale of shares, online account access, and electronic delivery of shareholder materials.

Financial and Other Information

PepsiCo's 2007 quarterly earnings releases are expected to be issued the weeks of April 23, July 23, October 8, 2007, and February 4, 2008.

Copies of PepsiCo's SEC reports, earnings and other financial releases, corporate news and additional company information are available on our website www.pepsico.com.

Our CEO and CFO Certifications required under Sarbanes-Oxley Section 302 were filed as an exhibit to our Form 10-K filed on February 20, 2007. Our 2006 Domestic Company Section 303A CEO Certification was filed with the New York Stock Exchange (NYSE).

If you have questions regarding PepsiCo's financial performance contact:

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